

# FINANCIAL TIMES

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**AIDS research**  
High hopes for drug  
combination therapy

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**Today's surveys**  
Kazakhstan  
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Separate sections

## Church leaders in attempt to stop Ulster violence

Politicians and church leaders in Northern Ireland made desperate moves last night to resolve the growing crisis between Protestant marchers and police that has brought the province close to paralysis. Fears of increased violence grew as the Orange Order's annual marching season reaches its peak tonight, after four nights of mayhem in which towns have been blockaded and some Catholic families hounded out of their homes. Page 15; Protestants under police spotlight, Page 7

**China airliner projects** China has chosen a European consortium, Aero International Regional, as its western partner in a controversial project to build a 100-seat airliner. Page 13

**Japan's PM threatens to sack Yeltsin**

Japanese prime minister Ryutaro Hashimoto (left) threatened not to attend the inauguration of Russian president Boris Yeltsin if the ceremony is held on August 8. This day, evoking bitter Japanese memories of unfinished hostilities between the two countries in the second world war, is the 51st anniversary of the Soviet Union's invasion of Japanese-held Asian territory late in the war. Page 12

**200m expansion by Honda** Honda and Unipart, vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK. Together with another planned joint venture involving German plastics group Kautex, they will create 400-500 jobs and involve total investment of just over 200m (£134m). Page 7

**Oil groups in sell-off** Six-ship Shell and Exxon, the world's largest oil companies, are to pool their petroleum additives businesses in a move that will give the combined unit a quarter of the \$60n a year international market. Page 14

**Spain looks to lower interest rates** Germany's 1997 federal budget would create more scope for private initiative in the economy and set conditions for lower interest rates, finance minister Theo Waigel said. Page 2

**Fuel rises after Indian MPs' anger** India's five-week-old United Front government ran into protest at the opening of parliament from Congress party and Bharatiya Janata party MPs over last week's rise in administered fuel prices. Page 6

**Britain in alleged blackmail plot** A computer company executive from Nottinghamshire, central England, appeared in court in Austria after being arrested over an alleged \$250,000 (£200,000) super-market blackmail plot.

**OECD sets Seoul conditions** South Korea has been told by the Organisation for Economic Co-operation and Development to further liberalise its economy before it will be allowed to join the Paris-based body. Page 4

**Diocese, the UK's biggest electrical retailer, provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in profits before tax and exceptional and a strong start to the current year. Page 17 and Lex**

**Telecom Malaysia**, the former state monopoly, plans to invest \$500m (£320m) over eight to 10 years to lay the infrastructure for a "multimedia super corridor" to link high-tech groups between Kuala Lumpur and an administrative capital, Putrajaya, still under construction. Page 15; Swiss power groups in telecom venture

**UK banks' overseas earnings** UK banks' net overseas earnings fell 27.5bn (£1.7bn) in 1994 to 22.2bn last year because of increased foreign ownership, lower overseas lending and reduced income from overseas interest rate derivatives. Page 7

**Beef outbreak measures urged** Urgent measures are needed to cut beef production in the European Union in the wake of the "mad cow" crisis, agriculture commissioner Franz Fischler warned. Page 7

**Spain's unions resist state sell-off** Some 10,000 trade unionists from state-controlled companies protested in Madrid against the privatisation programme unveiled last week by Spain's new centre-right government. Page 2

**China leads in contraceptive use** China heads the world use of contraceptives, with 88 per cent of Chinese married couples using them, according to a study released by a UK charity. Page 7

STOCK MARKET INDICES	
New York: Dow Jones Ind. Av.	5,951.20 (+30.85)
NASDAQ Composite	1,130.25 (+15.25)
Europe and Far East	
FT-100	2,811.55 (+42.25)
DAX	2,817.43 (+42.25)
FT-SE 100	2,811.55 (+42.25)
Nikkei	21,770.04 (+140.58)

US LUNTIME RATES	
Federal Funds	5.75%
3-month Treas. Bills	5.30%
Long Bond	8.04%
Yield	7.11%

OTHER RATES	
UK 3-year Bill	6.75%
US 10 yr T-Bill	6.75%
France 10 yr T-Bill	6.75%
Germany 10 yr T-Bill	6.75%
Japan 10 yr T-Bill	6.75%

NORTH SEA OIL (Barrels)	
Brut Dated	51.01
Brut Dated	51.01

Currencies	
US\$	1.5400
£	1.5400
DM	1.5400
¥	1.5400

## Deutsche builds up 5% stake in rival ■ Shares within industry rise

# Bank mergers loom in Germany

By Wolfgang Münchau in Frankfurt

Deutsche Bank, Germany's largest bank, has built up a 5.3 per cent stake in Bayerische Vereinsbank, worth some DM500m (£320m) in a move seen as foreshadowing a wave of mergers in German banking. Until now, German banks have very rarely taken stakes in rivals. But the removal of trade barriers in European banking markets and the prospect of the introduction of a single currency within three years have aroused concern about the industry's competitive strength. German banking is highly fragmented, with more than 4,000

active institutions. Deutsche is Germany's largest bank but holds only a 6 per cent share of domestic retail business. Deutsche said the purchase was an "attractive investment" and that it did not intend "to wield corporate influence". The assurances, however, were widely disbelieved in financial markets, which interpreted the move as a cautious start to a robust consolidation process likely to stretch over several years.

The news lifted the shares of the entire banking industry on speculation that other banks might follow suit. Vereinsbank shares gained 4.4 per cent to DM44.55, while Hypo bank shares

increased 5.5 per cent. Deutsche shares gained less, ending up only 1 per cent at DM73.21.

Vereinsbank is deeply rooted in Bavaria, although it has expanded into other regions and new technologies, and is Germany's largest mortgage lender. For Deutsche the move marks another step in a process of change which began with the acquisition of Morgan Grenfell, the UK merchant bank, in the late 1980s and continued to its wide-ranging internal reorganisation announced on Tuesday. At the annual meeting in May, Mr Hilmar Kopper, chairman, gave an ambitious depiction of Deutsche's corporate goals. "We want to maintain our position as Germany and Europe's leading bank, and to be part of the world's top ten; we want to become Europe's leading investment bank and close the gap with the world leaders; we want to retain our prime rating for the whole bank," he said.

Mr Stephen Lewis, European banking analyst at Union Bank of Switzerland, said: "Deutsche Bank seems to have put its foot in the door. When this process [of consolidation] happens, it wants to be in the right place. It is not making this investment to make a few D-Marks profit." The federal cartel office said it would not investigate the purchase. However, observers believe that an investigation would be inevitable if Deutsche was to increase its stake markedly or if it proposed closer domestic co-operation. It was unclear yesterday whether Vereinsbank's management was informed about Deutsche's announcement. "We are going to pursue the strategies that we pursued previously. We regard [Deutsche Bank's share purchase] as a confirmation of our business policy," said Vereinsbank.

A Bavarian foundation owns a 10 per cent shareholding in Vereinsbank and VLB, the utility group, has around 5 per cent. Bank for big league, Page 11  
Lex, Page 12

## Yeltsin looks to bring new faces into government

By John Thornhill in Moscow

President Boris Yeltsin, in a halting, nationally televised address yesterday called for "serious corrections" to economic reform to revive industrial production and improve living standards in Russia.

In his first appearance for a week, Mr Yeltsin renominated Mr Viktor Chernomyrdin as prime minister and said the recent presidential elections had been an important lesson in highlighting "his own drawbacks and the government's mistakes".

It was now essential to give industry "a second wind" to provide people with work and increase the prosperity of every Russian family, he said.

But the short and carefully edited television footage of Mr Yeltsin did little to allay fears about the 65-year-old president's health. He still does not appear to have fully recovered after an exhausting re-election campaign. The president, due to be inaugurated on August 8, suggested he would include new "professionals" in his reconstituted government, which he must submit to parliament for approval. "Innovative, competent and fresh people must enter the government," he said.

Political observers suggest Mr Yeltsin may try to broaden his political support by offering cabinet posts to representatives of the liberal Yabloko grouping, headed by Mr Grigory Yavlinsky, the radical economist and defeated presidential candidate.

However, Mr Yeltsin's decision to renominate the stolid Mr Chernomyrdin signals the president's commitment to persevere with the broad thrust of economic reform and will reassure local and foreign business executives.

The prime minister's influence in the Kremlin appears to have strengthened greatly since Mr Yeltsin's decision to crush the hardline Kremlin faction clustered around Mr Alexander Lukashenko, his confident and holy grail.

But Mr Yeltsin appears keen to counterbalance Mr Chernomyrdin's weight by promoting Mr Alexander Lebed, the former army commander, as the secretary of the security council and entrusting him with wide powers to crack down on law and order.

"The struggle against corruption in all echelons of power will be the most important direction of my work," Mr Yeltsin said yesterday.

After suppressing stories about scandal in the run-up to the presidential elections, Russia's national newspapers have this week splashed with allegations about corruption in the defence ministry and within the Kremlin itself.



## Heineken abandons Burma venture over human rights

By Gordon Cramb in Amsterdam

Heineken of the Netherlands yesterday pulled out of a half-built brewery venture in Burma and said it would also halt exports to the country in response to international pressure over human rights.

"Every billboard in the country will come down. Out is out," the Amsterdam-based group said yesterday.

Heineken's move follows Tuesday's decision by Carlsberg of Denmark to drop out of a rival project and deals a further blow to Burma's military rulers, who have been seeking inward investment by western multinationals.

It follows the intensification of a US campaign calling for a boycott of products made by companies doing business in Burma, which is now called Myanmar by the ruling state law and order restoration council, SORC.

Heineken, the leading foreign brand in the US beer market, was vulnerable to such pressures. Mr Karel Vansteenkiste, chief executive, said that since its decision to enter Burma 18 months ago, "public opinion and issues surrounding this market have changed to a degree that could have an adverse effect on our brand and corporate reputation".

Heineken is to sell its indirect 35.4 per cent stake in Myanmar Brewery to Fraser and Neave, the Singaporean brewer of Tiger beer, which has long been its main Asian partner. Both brands were to have been produced at the new half-built plant in the

was due to have opened this year.

PepsiCo of the US earlier this year agreed to sell its stake in a Myanmar cola bottling franchise after losing several US supply contracts, including college campuses. But the soft drinks group is still under pressure because it supplies syrup to the factory for production under licence.

Heineken's \$30m project was further forward than Carlsberg's, which was at the advanced planning stage. The Dutch brewer said it had been opposed by public opinion and its own trade unions.

Mr Aung San Sun Kyi, the Burmese opposition leader whose National League for Democracy's election victory six years ago was annulled by the military, has urged foreign companies and tourists to stay away while SORC remains in power.

The US boycott has been led by the Boston-based Franklin Research and Development Corporation, which manages about \$500m in ethical investment funds. Mr Simon Billenness, senior analyst, depicts Burma as "the South Africa of the 1990s", saying trading partners will come under increasing consumer pressure.

Oil companies are another target for campaigners. California-based Unocal, together with Total of France, is building a pipeline to export offshore natural gas to Thailand, Mexico and Arco are negotiating with SORC officials.

Sun Kyi exile hint, Page 6

## Banks urged to overhaul data flow for Emu

By Gillian Tett in London

Urgent changes in the way Europe's 15,000 banks and building societies report financial flows were demanded yesterday by the forerunner to a European central bank.

The European Monetary Institute warned that without better statistics, the central bank would not be able to run effective monetary policy after the switch to European monetary union planned for 1999.

However, the UK is refusing to implement the changes, which will increase the reporting burden on financial institutions, arguing that they are too costly and complex. Although other European Union member countries have agreed to make the changes, some complain they are too closely influenced by the Bundesbank, the German central bank.

A French banking official said the proposed new system seemed closely based on that in Germany, and would "certainly force French banks to make major changes".

But German officials insisted that the system would also force changes on German financial institutions.

EU countries currently use different methods for gathering information on money supply and balance of payments. While this system is acceptable for domestic policy, it will make it impossible for the future European central bank to gather accurate data across the single currency area.

The EMU is demanding that central banks harmonise the figures, with most countries giving more information. Financial institutions, for example, will have to supply monthly data, rather than quarterly figures used in countries such as France.

Banks will also have to provide information on the maturity of assets - data which are not provided at the moment in the UK and France. They will also have to break down financial flows between EU and non-EU categories.

Banking officials admit the

Continued on Page 12

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## NEWS: EUROPE

# Warning on tax burden for investors

By Robert Taylor,  
Employment Editor

High tax and social security burdens on employers are likely to discourage potential investors and increase unemployment in Europe, Deloitte Touche Tohmatsu International, the global accountancy firm, said yesterday in an analysis of comparative employment costs across 17 European countries.

There is currently "no clear link" between unemployment and wage costs across the continent, with some countries having low unemployment and high wage costs and vice-versa.

said Ms Ellie Patsalos, the company's international personal tax service manager last night.

But she said that many of the large companies interviewed for the survey had expressed concern about employment costs and "intend to take these costs increasingly into consideration when deciding where to invest abroad".

Germany has the highest labour costs for production workers, said the report. It found that the average cost of employing a production worker in Germany was a total of \$40,000 a year, when social security contributions were added to wages.

The country with the lowest total costs was Portugal - at \$10,000 a year. The UK was 11th in the league - employer's payroll costs per average gross wage amounting to \$24,000 a year.

"European Commission figures show between 1990 and 1993 the overall tax rate on employees grew by about 20 per cent. Inevitably this trend puts employers under pressure to increase wages rather than create new jobs," said Ms Patsalos.

The report said social security costs were the main burdens for employers but pension schemes, holiday pay, redundancy payments and collective

agreements were also "significant expenses".

The survey said there was a link between high labour costs and unemployment in Finland, Denmark, Italy and France, while Ireland and Portugal had low unemployment and low labour costs, but Spain, Greece and Ireland had low labour costs but high jobless rates.

But it also found unemployment was low in Austria, Norway and the Netherlands although those countries have high payroll costs to employers.

The survey found wide variations in the percentage of wages workers actu-

ally take home. In Finland workers receive 66 per cent of their wages after government deductions but in Spain the figure is 90 per cent. The figure in Germany is 78 per cent compared with 75 per cent in the UK, 80 per cent in France and 90 per cent in Spain.

British, Dutch and Norwegian workers make some of the lowest pension contributions (4.5 per cent) compared with over 10 per cent in most western European countries.

*The Hidden Costs of Employment. Free from Deloitte Touche Tohmatsu, Verulam Point, Station Way, St Albans, Herts AL1 5HE.*

## Spanish unions in threat to state sales

By Tom Burns in Madrid

The economic policies of Spain's new centre-right government met their first important challenge yesterday when some 10,000 trade union officials from state-controlled companies gathered in Madrid to condemn the ambitious privatisation programme unveiled last week.

"Either the government changes its policy or we will change the policy for it," said Mr Antonio Gutiérrez, leader of the Workers Commissions (CCOO) union federation, as delegates chanted slogans backing a general strike.

The threat of a government-union confrontation coincided with encouraging economic data, however. Registered unemployment fell by 171,599 between April and June, the biggest second quarter fall since 1988, to bring the registered jobless total down to 2.2m, 14.15 per cent of the labour force. Also, while industrial prices went up in May by 0.1 per cent, the year-on-year rise fell from 1.7 per cent to 1.5.

The combative mood at yesterday's mass meeting, which was organised by the CCOO and the UGT General Workers Union - the two main union confederations - was a clear warning to Mr José María Aznar, the prime minister, that the planned rapid sale of public companies will be met by industrial action.

The disposal of shareholdings worth an estimated Ptas3,000bn (\$23bn) over the next four years is the cornerstone of the government's bid to whittle down the public deficit and make Spain eligible for European monetary union.

Public sector companies employ more than 200,000 people, the vast majority of whom are union members. Union leaders are increasingly concerned about what they allege is a secret government agenda of swinging spending cuts and new rules on hiring and firing. Under the auspices of a "social pact" launched by Mr Aznar shortly after he took office in May, unions are to have discussions with employers and government officials on a range of issues, including the social security budget and labour market regulations. Mr Gutiérrez said yesterday that those talks would be broken off if the government persisted in its "ideological offensive" against the public sector.

Unions fear job cuts in companies that are privatised and that the government, which faces an annual bill of Ptas1,000bn in subsidies to loss-making concerns, could close companies it cannot sell.

The main union concern is with government initiatives in areas such as unemployment and disability pay, and pensions. Officials claim there is considerable fraud in the social security sector - a recent study alleged that 5 per cent of total payments were irregular.



Welfare benefits and job security for German workers such as these could be cut under legislation presently in parliament. *Tom Burns*

## German Länder cast shadow over Kohl's sunny outlook

Growth and jobs programme is progressing but big problems lie in wait, writes Peter Norman

Chancellor Helmut Kohl has been in a notably good mood in recent days - with some justification.

Yesterday's cabinet approval of next year's draft federal budget was a further step towards realising the government's programme for reducing spending, restructuring the welfare state, cutting taxes and making Germany more competitive.

It followed a fortnight in which the Bundestag, the lower house of parliament, approved controversial bills to cut sick pay, make economies in the health service and lower the burden carried by the state pension system as part of government plans to cut federal spending by DM25bn (\$16bn) next year.

Efforts to deregulate the economy have also progressed. The Bundestag has voted to relax legal protection against dismissal for workers in small enterprises with the aim of making the labour market more flexible. A much delayed bill to liberalise shop opening hours cleared its final parliamentary hurdle last Friday.

However, Mr Kohl and Mr Theo Waigel, his finance minister, will need all their political strength for the months ahead. For progress on those parts of the "programme for more growth and jobs" that are the responsibility of the federal government has been matched by reverses in areas where the states, or Länder, have a decisive say.

The Bonn political calendar bears witness to the strain. The end of the budget cabinet normally signals the start of a two-month summer "silly season" in Bonn. Not so this year.

The Bundestag, the opposition-dominated second chamber of parliament representing the states, meets in special session on July 19 and has already made clear that it will refer the bills just passed by the Bundestag to the conciliation committee of both houses.

In the final August week, parliamentarians will return from their summer breaks two weeks early for the conciliation committee and special sessions of the Bundestag and Bundestag before the proper autumn parliamentary session gets under way on September 10 with a first reading of the budget.

The Bundestag can only delay the DM440.2bn worth of spending plans in the federal budget. Similarly, because of the way the government has structured its bills to change

Growth and jobs programme is progressing but big problems lie in wait, writes Peter Norman

Bonn's budget: making Germany more competitive

DM bn	Plan 1996	1997	Medium-term financial plan	1998	1999	2000
Change on previous year		-2.5	+1.6	+2.6	+2.2	
Revenue	351.2	350.3	357.3	372.8	389.2	
Expenditure	402.2	354.4	338.8	305.5	309.0	
Net borrowing	-51.0	-5.1	-18.5	-32.7	-19.8	

Differences possible through rounding

Germany's 1997 federal budget will create greater scope for private initiative in the economy and set conditions for lower interest rates, Mr Theo Waigel, the finance minister, said yesterday, writes Peter Norman.

Presenting his plans for a 2.5 per cent cut in federal spending to DM440.2bn (\$290bn) next year and a reduction in the planned federal deficit to DM55.5bn from DM59.9bn in 1996, the minister said the budget would contribute to growth and employment.

He said the draft, approved by the cabinet yesterday, was "responsible". Its long-term benefits would outweigh any short-term reduction in demand caused by spending cuts. Mr Waigel said prospects for economic recovery were good. The federal statistics office reported yesterday that the pan-German year-on-year inflation rate touched a record low of 1.4 per cent last month, down from 1.7 per cent in May.

The cabinet also decided yesterday to freeze ministers' salaries next year. Details released by the finance ministry showed Bonn is aiming for strict control over public spending in the medium term, with outlays set to rise by an average 1 per cent a year in the five years from 1996 to 2000 inclusive, compared with an expected 4 per cent average yearly increase in nominal gross domestic product.

However, the Länder have far greater powers over the revenue side of the federal budget. Uncertainty also surrounds the states' ability, or willingness, to come up with

a reduction in the solidarity surcharge used to finance eastern Germany and other legislation to reform company taxes, will become law.

Last week's first reading of the tax bill in the Bundestag produced howls of protest against the finance minister's plans. In particular, the proposal to abolish wealth tax, which provides annual revenues of DM8.5bn for the states, was strongly opposed by the Social Democrat-controlled majority in the second chamber.

But states governed by Mr Kohl's Christian Democratic Union also raised objections, with Saxony opposing the bill's provision to delay for one year a planned increase in children's allowances which is due to save the federal government DM3bn in 1997.

The Bundestag sent the tax bill back to the Bundestag with requests for changes in nearly all its provisions. Protracted wrangling is now in prospect, with a compromise unlikely before December.

Meanwhile, the Länder have failed to agree a DM25bn austerity package of their own after Mr Oskar Lafontaine, the premier of Saarland and leader of the Social Democrat party, mobilised resistance to the plan among SPD-led state governments.

The apparent demise of this initiative will make it more difficult for Mr Waigel to achieve his goal of a domestic stability pact in which Germany's federal, state and local authorities would work together to bring the overall government deficit below the Maastricht treaty ceiling of 3 per cent of gross domestic product.

On the other hand, the states need to economise as much as the federal government, so some savings by the Länder are certain. Mr Waigel said yesterday that the modest 1997 public sector wage settlement would save the states about DM13bn. Moreover, recent votes in the Bundestag, such that on July 5 liberalising shopping hours, show the SPD cannot always impose party discipline on the state governments controlled by the party.

The government's eventual success with the shopping hours law helps explain Chancellor Kohl's confidence that the measures to boost growth and jobs will overcome the legislative hurdles and enter into law. Whether they will be adequate to meet his goal of halving unemployment by the end of the century is far less clear.

## Prodi may have to yield on economy

By Robert Graham in Rome

Italy's new centre-left government is warring the Marxist Reconstructed Communist party in an attempt to ensure a parliamentary majority for its economic programme.

With the opposition committed to vote against it, Mr Romano Prodi's Olive Tree alliance government may have to make concessions to EC on the level of agreed wage increases, as well as on the amount of money to be devoted to job creation.

The move to win the support of EC follows the rejection of the government's three-year macroeconomic programme in four out of eight committees in the chamber of deputies on Tuesday and in another yesterday. EC, formed from the hard line of the old Communist party, voted with the opposition on each occasion.

Although the opinion of these committees is purely consultative, the stance taken by EC has undermined the potential power of blackmail that the party can exert on the policies of a government that relies on it for a majority.

The key test will come today when the budget committee considers the 1997 budget outline in the three-year programme which aims to bring Italy within the convergence criteria for European monetary union by 1998 - a year later than the Maastricht treaty timetable.

The committee's opinion, and amendments, provide the basis for debate in the full house.

After a meeting yesterday of the centre-left parties in parliament, it was decided to introduce a specific reference to the government's economic policy document backing the introduction of "some compensatory mechanism" to allow wages to recoup lost earnings power.

This has been one of the fundamental demands of RC, backed less vociferously by the Party of the Democratic Left, the main partner in the Olive Tree alliance.

Until now the government has been reluctant to allow wage contracts to go above the 2.5 per cent inflation target for 1997 and has sought limit, if not exclude, any catching up on lost earning power over the past three years.

The meeting also endorsed another RC request to give a higher priority to fighting joblessness.

The parties agreed that the aim of raising employment by a full percentage point over the next three years was too modest. Instead, unemployment needed to be treated as an emergency.

RC itself has been pressing for a special fund of at least L16,000bn (\$10bn) to tackle unemployment.

The one area in which RC demands were directly rebuffed at yesterday's meeting concerned the balance between spending cuts and new fiscal measures in the 1997 budget. RC wanted to shift the emphasis away from spending cuts towards the fiscal side.

To modernise and standardise the scope of VAT, who would pay and who would be exempt, and rules on tax deductions.

## EUROPEAN NEWS DIGEST

## Change in EU truck charges

Mr Neil Kinnock, the European Union's transport commissioner, is proposing to replace standard charges for road freight hauliers - so-called Eurovignettes - with variable charges according to the age of trucks.

Since 1993, member states have had the right to impose charges on heavy trucks for using road networks, a system already adopted by Germany, the Netherlands, Denmark, Belgium and Luxembourg. Mr Kinnock wants to change the system from a flat rate to variable charges according to the amount of damage vehicles cause to the road infrastructure. Vehicles would be classified in three categories: pre-1988; post-October 1988, when new pollutant standards were imposed on trucks; and post-October 1996.

The Commission says that the system would result in an overall average increase in charges of 23 per cent. This is much less than the industry had expected. Mr Kinnock had earlier said he wanted to impose big increases to reduce traffic congestion.

Neil Buckley, Brussels

## Brussels raids film distributor

European Commission officials have raided the offices of the film distributor United International Pictures following complaints from cinema operators that the company was abusing its dominant market position in the European Union.

A series of raids were launched on UIP's offices in London, Paris and Brussels last week to seize documents. Cinema groups have complained for several years that UIP, which distributes films on behalf of Paramount, MCA and MGM, was imposing restrictive conditions. These included forcing cinemas to accept film packages if they wanted to show blockbusters.

A Commission official said yesterday the competition authorities had come to no conclusion about whether UIP's behaviour was anti-competitive but had decided that they should obtain the necessary documents to investigate. He could not say how long the inquiry would last.

UIP said it was "surprised" by the raids, and claimed to have given the Commission "voluntarily" information in response to previous inquiries. It denied forcing cinema operators to accept block bookings.

Neil Buckley

## Kuchma warns on economy

Ukraine's president, Mr Leonid Kuchma, yesterday won parliamentary approval for his prime minister and called for "an emergency regime" to right the economy and ensure that hundreds of thousands of unemployed workers received their wages.

Deputies overwhelmingly approved Mr Pavlo Lazarenko (pictured left), a former farm boss who has served in the post since May. Mr Kuchma told deputies that "the situation in the economy is critical. Most people's state of being has been stretched to the very limit". He said the government would draw up a list of measures "introducing an emergency regime in the economy without an overall state of emergency in the country". Mr Lazarenko said Ukraine had to reverse the fall in industrial production since independence in 1991, speed up sluggish privatisation and take tough measures to keep the budget deficit within the 4 per cent limit of gross domestic product set by western financial institutions.

In eastern Ukraine, 200,000 coalminers are reported to have joined a strike demanding unpaid wages. Mr Lazarenko said unpaid wages in Ukraine totalled the equivalent of \$1.4bn. "Some industries have a backlog of wages of three to four months," he told deputies.

Reuter, Kiev

## Slovak anger over minority

Slovakia yesterday summoned the Hungarian ambassador to explain his government's support for a conference last week that called for autonomy for ethnic Hungarians living outside the country.

"The Slovak government accused Budapest of breaching a bilateral friendship treaty after Hungarian government officials added their signatures to a statement issued by the conference which said that autonomy was essential to preserve the identity of ethnic Hungarians abroad 'and for their survival'". A foreign ministry spokesman in Budapest said Slovakia's reaction was "exaggerated and unwarranted".

Slovakia is home to some 570,000 ethnic Hungarians whose fate is a constant source of friction with Hungary. Last year, the countries signed a treaty, later ratified by both sides, that appeared to set aside disagreements on the minority issue, but diplomats said it was being interpreted in different ways by each government.

Vincent Bokard, Prague and Eddie Eddy, Budapest

## Bonn eases arms export rules

Germany has eased its restrictions on arms exports to help promote co-operation between its industry and European and allied weapons manufacturers. Bonn will rely in future on the export approval procedures of allied governments in cases where a German company supplies components for a joint arms project. Until recently, it has insisted on a prior agreement with the partner government over countries to which arms should not be delivered.

The economics ministry said that German exporters would still have to inform Bonn about the destination of arms containing German components. Germany also reserved the right to raise reservations about any exports to third countries with the government of the arms exporting country.

Peter Norman, Bonn

## ECONOMIC WATCH

## Norway's inflation falls again

Inflation continues to fall in Norway, despite robust economic growth and increasing employment. The annual rate narrowed to 0.9 per cent for the month ending June 15, down from 1 per cent in mid-May and 2.7 per cent a year ago, according to the state statistics agency. Statistics Norway said inflation dropped as lower fuel prices helped to offset increases in rent, food and charter travel prices. Producer price growth also slowed, from 0.6 per cent to 0.3 per cent, giving a year-on-year increase of 1.2 per cent. Norway's economy can seldom have looked healthier: the government forecasts a 1996 budget surplus of Nkr4.9bn (\$3.9bn) and the central bank has projected gross domestic product growth this year of 4.76 per cent, amid booming oil and gas revenues and buoyant domestic demand. Unemployment is set to fall to 4.26 per cent and to 4 per cent in 1997. Yet the danger of overheating remains, with the central bank and OECD warning last month of excessive wage growth.

Greg McIvor, Stockholm

Denmark's current account surplus fell to Dkr1.1bn (\$170m) in April from a revised Dkr1.1bn surplus in March.

Italian industrial turnover rose 5.3 per cent year-on-year in April, while orders rose 0.3 per cent.

## Overhaul urged for EU's VAT system

By Neil Buckley in Brussels

The European Union's value added tax system needs a "complete overhaul" in preparation for European monetary union, the European Commission said yesterday.

The call came from Mr Mario Monti, single market commissioner, as he relaunched his controversial attempts to harmonise treatment of VAT, setting out a programme of phased reforms through to mid-1999 - by which time the euro is due to be in operation. Reform of the VAT system is highly sensitive for both the Commission and member

states. Squabbles within the Commission led to the departure late last year of Mr Peter Wilmot, director-general for customs and indirect taxation. Change is likely to be resisted by many member states - making the chances of getting the required unanimous vote among ministers slim. But Mr Monti said yesterday his programme tried to take account of member states' concerns, and Brussels would use "all its persuasive powers".

Any extension of qualified majority voting to fiscal matters as a result of the ongoing

intergovernmental conference on revising the workings of the EU could also make it easier to get VAT changes approved.

"We are all aware the tax field is fraught with difficulties," Mr Monti said, "but the need is increasingly felt to improve the competitiveness of European firms by simplifying the system, cutting costs, and to give national administrations adequate guarantees (on tax collection) at a time when they are trying to cut deficits".

His three main proposals were: ■ To make businesses pay VAT on cross-border transactions in the country of origin

rather than the country of destination. The Commission says this would cut administrative costs for companies and make it easier to apply VAT rules.

■ To harmonise VAT rates progressively. Mr Monti believes making businesses pay all their VAT in one member state, rather than in several, will make it essential to bring tax rates closer together to avoid businesses in low-taxation states having an unfair advantage.

■ To modernise and standardise the scope of VAT, who would pay and who would be exempt, and rules on tax deductions.



## Russia bombs Chechen headquarters

By Chrystie Freeland  
in Moscow

Russia yesterday shattered the fragile Chechen ceasefire which helped to secure President Boris Yeltsin's re-election, unilaterally breaking off talks with the separatists and bombing the headquarters of their leader.



Zelimkhan Yandarbiyev, leader of the Chechen fighters, two months ago he was Mr Yeltsin's guest in the Kremlin

The aggressive moves are likely to provoke a new outburst of heavy fighting in the battered region and threaten to discredit Mr Yeltsin less than a week after his resounding victory over the Communists at the polls.

General Vyacheslav Tikhomirov, Russia's military commander in Chechnya, said that as of yesterday Russia had broken off all political contacts with the Chechen separatists and targeted fire on the village where Mr Zelimkhan Yandarbiyev, the leader of the Chechen fighters, is thought to be based.

Just two months ago Mr Yandarbiyev was Mr Yeltsin's guest in the Kremlin in a highly publicised meeting which brought a delicate truce to the war-torn region and inaugurated a series of more substantive negotiations.

On the eve of the presidential election Mr Yeltsin sought

to consolidate his image as a man of peace by ordering the withdrawal of Russian troops from Chechnya.

Gen Tikhomirov's announcement coincided with intense Russian air and artillery attacks on at least two Chechen towns, including the one where Mr Yandarbiyev was believed to be temporarily based.

Local officials said that dozens of Chechen civilians had already been killed in the fresh eruption of fighting which began on Tuesday.

Russia's reversion to bellicose tactics in Chechnya so soon after Mr Yeltsin's election provoked angry protests from liberal politicians and journalists who had been the president's most stalwart allies during his campaign to remain in office.

This sense of betrayal was most stridently voiced by Mr Konstantin Borovoi, an arch-liberal parliamentarian, in a statement drafted for debate in the legislature yesterday.

"If military action in the Chechen republic is not quickly stopped, then on August 9 (the president's inauguration day) the people of Russia will receive the right to name Yeltsin not a new president but a liar and a killer," Mr Borovoi's draft said.

Although parliament rejected Mr Borovoi's harsh comment, it reflected the Russian liberal elite's fear that, with the elections safely behind him, Mr Yeltsin has reverted to the crude policies which had made him one of Russia's most unpopular politicians just six months ago.

However, uncertainty about Mr Yeltsin's health has made it difficult to determine who has taken the decision to jettison the peace process and restart the war in Chechnya.

Some military observers have laid the blame squarely at the feet of Gen Tikhomirov, a hawkish officer who has been opposed to talks from the outset. But others believe the general must have received approval from Moscow.

## Srebrenica: 'scene from hell' that drove Bosnia to peace

Mr Hurem Suljic is a gaunt Bosnian farmer who looks older than his 56 years as he hobbles about his garden in a village outside Sarajevo, recently abandoned by the Serbs.

His voice is strong but impressive as he describes surviving Europe's worst atrocity since 1945, a chain of ghastly events that began when Srebrenica fell a year ago today.

He remembers the token, last-minute air strike by Nato which failed to stop the Serb army plunging its way into the town, one of six UN-protected "safe areas" of Bosnia.

"At first, when I heard Nato's bombers, I thought everything was all right and I went out to do some planting," he recalls. "But then I heard they hadn't hit a thing."

That evening, Mr Suljic and his grand-daughter rode on horseback to the UN camp at Potocari, north of the town, where, he says, up to 30,000 residents were holed up.

About 12,000 of the town's able-bodied men had already embarked on a desperate walk to government-held territory. They had to contend with minefields and Serb attacks with anti-aircraft guns. Many went mad or committed suicide.

But Mr Suljic, as an invalid, took his chances with the women and children at Potocari. This was a mistake: like all the men at the UN base, he was separated from the terrified women and driven away.

It now seems that virtually all these male captives

were killed in cold blood.

Mr Suljic says he remembers General Ratko Mladic, the Serb commander, taunting the prisoners: "You thought Nato can save you, but Nato can't."

He says that after two nights' confinement, in which many of his fellow captives were beaten to death, he and dozens of others were taken out in trucks to a field where they were lined up in columns of four, a few feet apart.

"I heard machine-gun fire behind me, they were shooting us in the back," he recalls. "A man fell on top of me. He was alive, but then they came round with pistols and started

shooting individuals. He was wounded in the neck, bleeding, crying for help. And then he stopped breathing."

The dimensions of the Srebrenica massacre have been pieced together through accounts like that of Mr Suljic, who crawled away and spent five days walking to safety.

The Red Cross reckons that more than 8,000 people are missing. An investigation into 12 mass graves, which began this week, will show how many died in cold blood. The Serbs have claimed that many deaths occurred in combat.

Judge Fouad Riad of the international war crimes tribunal said after sifting the evidence of the Srebrenica massacre

cre: "These are truly scenes from hell, written on the darkest pages of human history."

Yet for all its ghastliness, the fall of Srebrenica - and of nearby Zepa, another Moslem enclave - began a series of events that broke the UN-imposed stalemate and led to the Dayton peace agreement which divided Bosnia roughly in half between a Serb zone and Croat-Moslem federation.

Bosnian officials have never hidden the fact that before Srebrenica's fall, the existence of highly vulnerable Moslem enclaves in the east of the country was preventing them from breaking the military

**A survivor recalls an atrocity which today, a year later, is still marked by some haunting unanswered questions**

logian and rolling back the Serbs. For example in autumn 1994 Bosnia had to soften its demands for an end to the UN arms embargo because it feared provoking a Serb attack on Srebrenica.

The inconvenience to the Bosnian side of the enclaves was bluntly noted by General Rasim Delic, the military commander. "Our government had made many concessions, many political concessions in order to save Srebrenica and Zepa."

But there was, it appears, a limit to the willingness of Sarajevo, Washington and several other capitals to go on making concessions for the enclaves' sake.

In April 1995, the commander



Investigators exhuming remains in Svrake, near Sarajevo, recently of nine Bosnian Muslims executed by Serb forces in 1992. More exhumations are planned in Srebrenica

## DIPLOMATS UNITED ON KARADZIC REMOVAL

Senior western diplomats agreed in London yesterday on the urgent need to "marginalise" Mr Radovan Karadzic, Bosnian Serb leader, and ensure he is brought to trial by the international war crimes tribunal in The Hague, writes Bruce Clark.

The tribunal is expected to issue an international arrest warrant for both Mr Karadzic and General Ratko Mladic, the Bosnian Serb military commander, today. This could potentially clear the way for a commando operation to arrest them, an idea which has been mooted in Washington.

The diplomats agreed the recent decision by Mr Karadzic to transfer presidential responsibilities to his deputy, Mr Biljana Plavcic, was only a first step towards the Bosnian Serb leader's withdrawal from real power.

They also agreed the "right place for Mr Karadzic is The Hague," according to a Foreign Office spokesman. The diplomats, from the US, France, Germany, Russia, Italy and the EU, agreed it was desirable all political parties participated in forthcoming Bosnia-wide elections.

However Mr Robert Frowick, the US official overseeing the elections, is understood to have stuck to his position that the SDS, a hardline Serb nationalist party, should be excluded as long as Mr Karadzic is its leader.

## Erbakan raises state pay in Turkey by 50%

By John Barham in Ankara

Mr Necmettin Erbakan, Turkey's new Islamist prime minister, has announced a 50 per cent pay rise for the country's 1.8m state employees, increasing fears that he will pursue populist policies at the risk of damaging the economy.

"This will be paid for through blessings of God," said Mr Erbakan, dismissing fears of economic damage. "This government is for villagers, workers, the unemployed, the poor,

the retired. We did the most we could to help them. Our aim is to bring prosperity for the people."

But he told parliament: "Every sort of income from profiteering should be taxed in an active manner, while easing the tax burden on production factors."

Analysts say the wage rise will add \$1.5bn to the treasury's budget deficit this year, bringing it close to \$10bn, double last year's gap. Inflation and interest rates could also rise substantially.

With this week's increase the pay of the lowest grade of civil servant should rise to \$231 a month - an industrial worker in Turkey is normally paid around \$200 a month. Mandates are to get just under \$2,000. The 50 per cent pay increase makes up for inflation of nearly 40 per cent in the first half of the year.

Mr Erbakan denied that the rises would be swallowed up by higher inflation, more taxes or price rises at state-owned companies. He said higher incomes would stimulate the

economy, strengthening public finances.

Mr Erbakan's Refah party is the dominant partner in the coalition with the conservative True Path party, whose leader, Mrs Tansu Ciller, has responsibility for economic policy. Mrs Ciller was more cautious than the prime minister yesterday. "Without finding additional resources the pay rises will be taken away" by inflation, she said. The government would search for additional resources to finance the higher wage bill.

Annual inflation is over 80 per cent and real yields on the snowballing domestic debt are 50 per cent a year. Inflation and interest charges look certain to grow, swelling the budget deficit fueling yet more inflation.

Mr Deniz Gokce, an influential financial analyst, said: "I do not anticipate any problems until October. But Erbakan cannot continue with this kind of populism." Mr Gokce said inflation subsidies and hard currency revenues rise in the summer, giving the government a breathing space.

## NEWS: THE AMERICAS

### AMERICAN NEWS DIGEST

## Thousands flee hurricane Bertha

Hundreds of thousands of residents and tourists began evacuating vulnerable coastal areas from Florida to North Carolina's fragile barrier islands yesterday as hurricane Bertha headed toward the US eastern seaboard.

Florida authorities issued evacuation orders for nearly 500,000 residents from Sebastian Inlet to Amelia Island. The storm spent Tuesday in the open Atlantic after a deadly trek through the eastern Caribbean that killed at least three people in Puerto Rico.

Bertha was downgraded to a category 2 hurricane on Tuesday as maximum winds dropped from 115 mph to 105 mph. But even if the storm turns out to sea it could still cause high waves and erosion on the coast, US forecasters warned. At Cape Canaveral in central Florida, officials at Kennedy space centre hurried to pull the space shuttle Atlantis off its launchpad as a precaution.

AP, Miami and Reuters, Nassau

## Netanyahu foresees drop in aid

Mr Benjamin Netanyahu, the Israeli prime minister, promised the US Congress yesterday that he would begin reducing his nation's dependence on US economic aid. The US provides some \$3bn in economic and military aid to Israel each year, more than to any other country.

The promise, part of a wide-ranging speech to a joint meeting of Congress, won a standing ovation from lawmakers and Clinton administration officials who have been making their own promises of US government cutbacks.

Elsewhere in his speech Mr Netanyahu said his country was ready to begin negotiations with the Palestinians on a final settlement. But on Jerusalem, which Arab leaders to make the capital of a Palestinian state, he reiterated his tough line. "There will never be such a revision of Jerusalem, never," he said to widespread applause.

Reuters, Washington

## Atlanta taxi fares up by 40%

Atlanta taxi drivers raised fares by as much as 40 per cent yesterday under city-approved legislation that allows them to charge higher rates during the Olympic Games.

The fare for one person from the airport to downtown increased from \$18 to \$22 under legislation approved by the city council. The flat rate for a taxi ride within the downtown district rose from \$5 to \$7 - a 40 per cent increase. The surcharge for additional passengers has been doubled.

The fare increases will remain in effect until August 30, more than three weeks after the Olympic Games end on August 4. Olympics officials have said they oppose price-gouging. A Georgia law limits the rates hoteliers can charge during the Games.

Reuters, Atlanta

## Cuban hijacker 'was dismissed'

A Cuban who hijacked an aircraft to the US naval base at Guantanamo Bay in southeast Cuba had been sacked from his job as an interior ministry officer on suspicion of theft, Cuban officials said yesterday.

They said said Mr José Fernandez Pupo was a former lieutenant colonel in the interior ministry. He was dismissed in February on suspicion he had stolen about \$50 worth of ministry funds that were meant to be used for food supplies. Mr Fernandez Pupo forced a small plane on a domestic flight in eastern Cuba to land at the US base on Sunday and then asked for political asylum in the US.

US officials have said he is in the custody of the US Immigration and Naturalisation Service, and have not yet said how the case will be handled.

Havana, Reuters

## President seals pact with Mexico's hardline governors, write Leslie Crawford and Daniel Dombey

## Isolated Zedillo trades policy for friends

For Mr Roberto Madrazo, the embattled governor of Tabasco, a year-long nightmare ended this week when state prosecutors absolved him of responsibility for the massive undeclared funds employed by Mexico's ruling party to secure his election victory in 1994.

In reality, Mr Madrazo's reprieve came not with the prosecutor's verdict, but with a single presidential embrace two weeks ago, on the airport tarmac of Villahermosa, the capital of Tabasco and Mr Madrazo's home town.

In the cryptic language of Mexican politics, President Ernesto Zedillo's visit to Tabasco, during an official inquiry into Mr Madrazo's \$73m election war chest and alleged ties to money laundering, was interpreted as more than just a show of support for the controversial governor.

Most observers saw the warm embrace as confirmation that Mr Zedillo had sealed a pact with Mexico's hardline governors to win support for his flagging presidency.

After 19 months in office, Mr Zedillo's relationship with the Institutional Revolutionary Party (PRI) is still fraught with tensions. His orthodox economic policies are regarded as an electoral liability, while his efforts to modernise the PRI are viewed with suspicion.

Mr Zedillo's isolation had begun to affect his ability to govern Mexico. No other president has been the target of so many rumours of military coups, palace conspiracies and plots to force his resignation.

Mexico's state governors - powerful overlords, whose fathers and grandfathers were often governors before them - represented the obvious bal-



Zedillo: good news

last for the president's unstable ship. To get them on board, however, Mr Zedillo may have been forced to give up much of his reformist agenda.

"I think we will see the gradual abandonment of national talks on electoral and political reforms," says Mr Federico Estévez, director of the social sciences department at Ibero University. "Instead, President Zedillo will probably begin to give prominence to law and order issues, and the importance of maintaining social stability."

The opposition Revolutionary Democratic Party (PRD) said Mr Madrazo's acquittal in Tabasco raised questions

Mexico's monthly inflation dropped to 1.6 per cent in June, its lowest level in 18 months, in a sign that the central bank's tight monetary policy is beginning to tame the price explosion provoked by last year's depreciation of the peso, Leslie Crawford reports from Mexico City.

Consumer prices rose 15.3 per cent in the first six months of the year, against 22.9 per cent in the first half of 1995.

Most private forecasters expect inflation for the full year to end at between 25 and 30 per cent, compared with 82 per cent in 1995.

Other figures released by the finance ministry and central bank suggest that economic recovery is under way.

Industrial production has shown a consistent improvement since February, with the exception of the construction industry which remains in the doldrums because of the lack of big government projects and the high cost of bank finance. Consumer spending has begun to show a timid

recovery, though investment outlays are still below 1995 levels.

Mr Guillermo Ortiz, finance minister, estimates gross domestic product grew by 5 per cent in the second quarter of 1996, at which point the economy would have recovered about half of the production lost during last year's deep recession. The finance ministry has forecast the economy will grow by 3 per cent in 1996, against a 7 per cent contraction in 1995.

Exports in May reached a record \$8.04bn, almost 20 per cent higher than a year ago. Mexican industry has also begun to generate a greater demand for imports, which are up by 18 per cent compared with recession-hit 1995.

The trade balance remains healthy, totalling \$3.34bn in the first five months of the year. The accumulation of net international reserves, however, remains painfully slow, with the central bank recording only \$1.65bn in net reserves at the end of last week.

army, whose exploits can only serve further to undermine the authority of the president.

Yet another governor who has remained unshaken by the president's reformist agenda is Mr Manuel Bartlett, who heads the central state of Puebla.

Mr Bartlett is the very model of a Mexican politician. He has served the PRI for 30 of his 50 years and been rewarded with top ministerial posts in two administrations before returning to his home state as governor in 1993.

As Mexico's interior minister in the 1980s, Mr Bartlett was the government's chief "alchemist", conjuring

the votes that were necessary to win the presidency, by the slimmest of margins, for Mr Carlos Salinas in 1988.

But the time-honoured methods which have kept the PRI in power for 67 years landed Mr Bartlett in trouble earlier this year. The conservative National Action Party, emboldened by popular anger at Mexico's economic crisis, accused the governor of vote-buying and election-rigging during Puebla's municipal elections. After much wrangling, some of the more questionable results were overturned.

Mr Bartlett shrugs off the defeat as "opposition blackmail" and defends his vote-winning tactics.

"It is absolutely legitimate to give out [farm subsidy] cheques up to the last day before an election, so that people can see the government is committed to the peasantry and is giving them their due," Mr Bartlett says.

"This is not anti-democratic. All parties do the same in Mexico; even the governors of opposition parties, they behave in exactly the same way."

The only item in Mr Zedillo's agenda which sparks off Mr Bartlett's enthusiasm is, not surprisingly, a presidential initiative to devolve more power to state governments.

More political reform? Mr Bartlett does not see the sense in it. "We [the PRI] gave away seats in Congress to the opposition long before they were strong enough to win on their own; we invented the system of proportional representation; we introduced state financing for all political parties," he says.

"All of this was done courtesy of the PRI. And instead of thanks, what did we get? All-out war."

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## Powell rules himself out of full-time role for Dole

By Jurek Martin in Washington

Retired General Colin Powell, still seen by some as a potential saviour for the Republican party, yesterday ruled out full-time campaigning on behalf of Mr Bob Dole, the party's presumed presidential candidate.

In a breakfast TV interview, he denied his support for Mr Dole was "tepid", saying: "I will vote for him, I will support him and I will convey, as I go round the country, the reasons that I think he is worthy of that support."

But, he went on, "the specific question that's caused all the speculation is am I going to become a full-time

campaigner, on the trail, in the plane, and the answer to that is no, that's not part of my life at this time and that's not what I intend to do."

Gen Powell said he was "willing to consider" a speaking role at the Republican national convention in San Diego, California, in the middle of next month, as has been suggested recently by Mr Newt Gingrich, the House Speaker. But he emphasised that nothing had yet been decided.

He also obliquely criticised Mr Dole for not attending the annual meeting of the National Association for the Advancement of Coloured People (NAACP), which is taking place this week in Charlotte, North Carolina,

and which was to be addressed later yesterday by President Bill Clinton.

"I wish he [Mr Dole] didn't have a scheduling conflict," said Gen Powell, who is black, citing the reason given by the Dole campaign for not going to Charlotte. "I think it would have been useful for him to present his views to the NAACP."

The former chairman of the joint chiefs of staff has been in the public eye this week with a series of interviews on publication of the paperback edition of his best-selling memoirs.

In one broadcast on Tuesday with Mr David Dinkins, the ex-mayor of New York City, he was critical of the Republican right wing, saying he did

not believe in some of the now "standard postures" on the party he only formally joined last year.

"The Republican party is broader and deeper and more inclusive than you might think from watching the headlines," he told Mr Dinkins. "What I think Senator Dole will have to do is make sure those inclusive, moderate, centrist Republicans are in there supporting him."

Mr Dole now seems to be acting on this advice. Having already risked the wrath of social and religious conservatives by seeking to incorporate a declaration of "tolerance" on abortion in the party platform, on Tuesday he went back on a promise to repeal, if

elected, the 1994 ban on the sale of certain types of assault weapons.

"We've moved beyond the debate over banning assault weapons," he told a Virginia rally. "Instead we ought to be emphasising what works," such as improved computerised checks on would-be gun buyers.

But Mr Dole left to his press spokesman the task of making explicit that repeal of the assault weapons ban was "no longer on the agenda". That brought prompt criticism from the Clinton campaign that Mr Dole was refusing to "come clean" and therefore might still be "squearing in the pocket" of the National Rifle Association, the principal pro-gun lobby.



## NEWS: WORLD TRADE

## Former foes unite in GM bus venture

By Yaroslav Trofimov  
in Tel Aviv

In an unprecedented business venture between two formerly hostile nations, Jordan's Elba company and Universal Trucks Israel (UTI) have agreed to co-operate in assembling and marketing a 24-seat General Motors minibus.

Under the deal, UTI, the sole dealership for General Motors vans and trucks in Israel, will import GM chassis and ship them to Elba's factory in Amman, where the buses' body and furnishings will be added.

The finished minibuses will then be returned to Israel for sale.

Elba already builds bodies for buses based on chassis by Mercedes-Benz.

"As far as I know, this is the first such co-operative effort in the history of Arab-Israeli relations," said UTI's managing director, Mr. Doron Lior.

He added that the first prototype bus, which would probably be sold under the name "GMC King", was completed and ready for marketing. He expected the sales - to be launched in a few months - to reach \$8m for the first year.

"We are primarily targeting commercial companies which would use these buses for tourists," Mr. Lior said. The minibuses are expected to sell for \$90,000.

All the sales of the new venture will have to be inside Israel, as UTI's agreement with General Motors bars the company from re-exporting GM components.

According to Mr. Lior, while no actual work on the minibuses will be performed in Israel in the coming months, at a later stage UTI plans to establish an Israel-based facility to equip the GMC-Elba vehicles with its own seats and air conditioners.

The minibus venture has been made possible by the October 1995 Jordanian-Israeli trade agreement, which removed obstacles to trade.

## OECD sets hurdle for S Korea

Seoul must free up economy to qualify for entry

By Guy de Jonquieres  
in London and  
John Burton in Seoul

The Organisation for Economic Co-operation and Development has told South Korea it needs to commit itself to further liberalisation of its economy if its efforts to join the Paris-based body are to succeed.

OECD committees vetting Korea's application have concluded that, despite recent economic reforms, it still does not meet the organisation's codes on capital movements and inward investment.

Officials close to the membership negotiations said Seoul had been given until September to show how it planned to comply with the requirements. Separately, a dispute has erupted over demands by a growing number of European governments that Seoul give up its attempts to retain indefinitely its developing country status in negotiations on agricultural trade.

However, Korea - with sup-

port from some other OECD members - is bitterly resisting. A senior official in Seoul said agriculture was politically so sensitive that his government might withdraw its application to join the OECD rather than renounce its developing country status.

"To accept OECD conditions on this issue is out of the question because it would open a Pandora's box of political problems for the government," he said. "If we made any concessions now, it would probably destroy the already fragile domestic consensus for joining the OECD."

The Korean government has recently expressed confidence that its negotiations have made enough progress for its application to be approved by the OECD's governing council in September, paving the way for membership by the end of the year. However, an official of one OECD government said Seoul was being too optimistic, though he still believed the remaining obstacles could be

cleared in the next few months.

"Joining the OECD is proving more difficult in objective terms than the Koreans had thought," said another official. "Giving a simple statement of political commitment will not be enough to ensure membership."

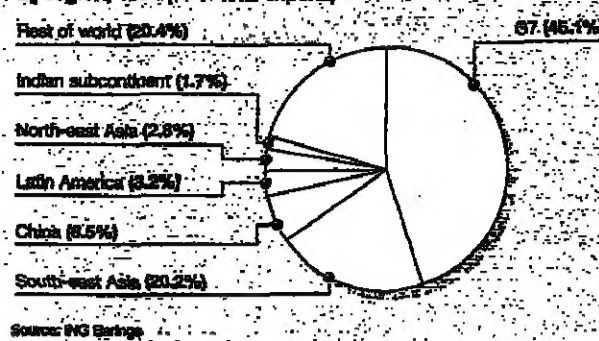
In an effort to boost its application, Korea told OECD members at a meeting last week that it was ready to abolish by the year 2000 its restrictions on foreign portfolio investment and to ease curbs on foreign banks and securities firms.

However, the OECD committees are not satisfied that Korea has done enough to remove restrictions on trade credits and bond transactions, and are also pressing it to lower further barriers to takeovers by foreign companies.

Although Seoul might not be required to meet all the OECD rules on capital movements immediately, members are seeking a firmer timetable for its planned compliance than

## Korean exports where they go

By region, 1994 (% of total exports)



Source: UNCTAD

Korea has so far been willing to give.

Some negotiators believe its reluctance partly reflects government concern about the country's growing current account deficit. But they say Korea also seems generally unwilling to rely on market-oriented policies.

Korea has already told the OECD it will give up developing country status in trade in industrial products. But officials say its regime for agricultural trade is a matter for the WTO, not the OECD.

new agriculture negotiations in 1999.

Korea's refusal to give any commitment is supported by Australia, Canada and New Zealand - normally passionate critics of agricultural protectionism and by Japan.

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## Ericsson boost for Turkish mobile phone network

By John Barham in Ankara

Ericsson, the Swedish telecommunications company, is to supply Turkey's Turkcell with 100,000 mobile phones and 100,000 subscribers and needs to increase capacity to accommodate the growing number of new subscribers.

Demand is rising in spite of Turkey's serious economic difficulties and political uncertainty following last week's appointment of Mr. Necmettin Erbakan as the country's first Islamic prime minister.

Mr. Pamukozler said "there is a large number of self-employed people and small companies that need mobiles and this trend is likely to continue."

Turkcell has almost cornered the GSM market after the government withdrew the licence of its competitor Telsim last year, alleging that it was in breach of its

contract. One of Telsim's principal shareholders was locked in a bitter political feud with Mrs. Tansu Ciller, then prime minister.

The new Islamist government has announced that it will renew Telsim's licence. Analysts expect Telsim will soon go ahead with plans to invest over \$100m to upgrade its network and win back subscribers lost to Turkcell.

Ericsson executives hope that the new government will accelerate stalled plans to privatise the mobile network or sell new licences.

Mr. Ciller had hoped to raise \$500m by selling 35-year licences until the supreme court declared the legislation invalid.

Her government sent a new draft law to parliament, but Turkey's recent political upheavals have slowed progress.

## Dumping duties irk pasta makers

By Andrew Hill in Milan

Italian pasta companies yesterday threatened to appeal against a US decision to impose anti-dumping and anti-subsidy duties on imports.

The US International Trade Commission said on Tuesday that cheap imports from 30 Italian and three Turkish pasta producers had injured domestic producers. The Commerce Department will impose definitive anti-dumping duties of between 0.67 and 47 per cent on Italian producers.

De Cecco, Italy's largest exporter of pasta to the US, was hit with the heaviest anti-dumping duty, and an anti-subsidy duty of 3.37 per cent.

Mr. Roberto Bonucci, managing director of De Cecco, said yesterday the company was "extremely displeased" by the ITC's decision, especially as De Cecco pasta cost up to twice as much as US-produced pasta.

"To be condemned you have to have damaged the competition by undercutting US pasta: it seems to me this is the reverse," he said.

Mr. Giancarlo Menconi, president of Unipasta, the Italian pasta-makers' trade association, said yesterday an appeal was a strong possibility.

The pasta-makers can appeal to the Court of International Trade in New York. The Italians are also putting informal pressure on the US government through the European Commission.

Italian producers export 350,000 tonnes of pasta a year to the US. De Cecco's US exports of 30,000 tonnes account for about 30 per cent of its production.

Provisional duties are already in force against Italian pasta imports following a lobby by US producers, including Borden, Hershey and Goch Foods.

## WORLD TRADE NEWS DIGEST

## BT links with Korean ally

British Telecommunications yesterday announced an alliance with Dacom, a privately owned South Korean telecoms carrier. Formerly the Data Communications Corporation of Korea, Dacom was established in 1988 with Korea Telecom holding a substantial stake. It has since been privatised and competes with Korea Telecom in the international voice and domestic long-distance market.

The joint venture will provide business communications services for companies in Korea and it will give its customers access to global services from Concert. BT's joint venture with MCI of the US.

Mr. K-soo Sun, president and chief executive of Dacom said: "BT is the best possible company partner to help us meet our objectives in the areas addressed by the proposed joint venture." Dacom employs about 3,000 and had revenues of \$462m in 1995. It is a member of the Hansol Personal Communication Service consortium which won a licence this year to offer mobile services across Korea. Alan Core, London

## US-Japan chip talks fail

The US and Japan have failed to resolve their differences over semiconductor trade following two days of talks in Tokyo. "We held discussions on proposals from both sides, but reached no settlement," said an official at the Ministry of International Trade and Industry. However, he said there had been "a deeper understanding of the other's proposal" on a new framework to replace the bilateral semiconductor agreement which expires at the end of this month. Washington has been pressing for a new bilateral framework which has boosted the foreign share of the Japanese microchip market to above the target of 20 per cent. Foreign Staff

## Ukraine to lease Boeings

State-owned Air Ukraine will lease two Boeing-767 aircraft for non-stop flights to North America to replace ageing Soviet-built Ilyushin-62 aircraft. The Boeings will operate on existing routes linking Kiev with New York, Chicago and Toronto and to two planned destinations, Miami and Los Angeles.

The leasing arrangement was concluded through a joint venture set up with the US company Crusader with a capital of \$250m. Further leasing arrangements are expected.

The Boeing aircraft are expected to generate considerable fuel savings compared to the Ilyushin-62. Ukrainian media has also reported that the Ilyushins will no longer conform to US anti-noise legislation from next year. Reuters, Kiev

## RJ Reynolds in Belarus venture

RJ Reynolds Tobacco, a unit of US consumer goods group RJR Nabisco, is negotiating a joint venture to produce cigarettes with the Grodno tobacco factory in Belarus, but several issues must be settled before the government can approve the deal.

An official at the Ministry of Foreign Economic Relations did not assign a price to the potential deal but said that the investment would be split evenly.

Interfax news agency said the company would invest \$12m over five years to modernise the factory and sought excise duty and value added tax exemptions, but the Belarusian side wanted \$20-\$30m in new equipment.

Ford will begin manufacturing cars and vans in Minsk next year after signing a \$20m joint-venture deal with Belarus and Lada of Russia in May. Reuters, Minsk

## NEWS: INTERNATIONAL

## Resolution strengthens plan for international East African force to halt ethnic killing

## OAU backs Burundi peacekeeping mission

By Michaela Wrong  
and agencies

After decades of ignoring civil strife within member nations, the Organisation of African Unity (OAU) yesterday gave emphatic backing to a proposal to send East African troops into Burundi to halt the killing between majority Hutus and minority Tutsis.

Rejecting suggestions that the initiative - planned by Tanzania, Uganda, Ethiopia and the OAU - included instead that it was "a demonstration of brotherly concern and genuine anxiety to avoid a new African catastrophe".

The resolution adopted at the end of the three-day summit in Cameroon was more hard-hitting than a draft version circulating beforehand, which vaguely commended regional efforts to set up a technical committee to look into the modalities of extending security assistance to

Burundi. In the final version, African leaders declared their full support for decisions reached at last month's regional summit in Arusha to provide troops to guard politicians, key installations and retrain Burundi's Tutsi-dominated security forces.

That meeting was considered a diplomatic breakthrough, because it was the first time that the leadership in Burundi had formally asked for outside help.

The OAU resolution, which also appealed to other nations to provide logistics and financial support for the venture, will satisfy Mr. Julius Nyerere, the former Tanzanian president chairing peace talks between Burundi's political parties.

His attempts to negotiate a political settlement between the two ethnic communities have so far been sabotaged by the steadfast refusal of UPRONA, the Tutsi-dominated party, to talk to Hutu-led rebels operating from Zaire.

Although details of the East African deployment remain nebulous, the OAU's decision to give it a formal blessing may encourage UPRONA to compromise.

But Mr. Nyerere has made it clear that if all attempts at a political solution fail, Tanzania for one, is ready to realise its plans in the teeth of resistance from the Tutsi community.

More than 150,000 people have died in Burundi in the past three years and thousands have fled into neighbouring countries, stoking instability in a politically fragile region.

"It's a good initiative," Mr. Burundi's prime minister Mr. Antoine Nduwayo said. Mr. Nduwayo is a Tutsi, the minority tribe that dominates the army and insists on continuing any regional force sent to Burundi.

As a Tutsi, he is caught in the middle between hardliners rejecting the plan and the government's acceptance of it under intense international pressure.



An old Tutsi who lost several family members among 50 killed in a rebel attack on the Teza tea estate last week.

## Roula Khalaf speculates on how Riyadh may use a \$8bn windfall

## Oil bonus mystifies Saudi watchers

Saudi Arabia may receive as much as \$8bn in extra revenues from higher oil prices this year. But how the windfall is being used is anybody's guess.

So far, according to economists and businessmen, most of it has found its way into the local economy.

Average Saudi oil export prices in the first half of this year have been about \$4 higher than the \$14 price assumed in the SR150bn (\$40bn) 1996 budget unveiled in January.

Businessmen and economists are eager to find out how the oil bonus is being used in view of the government's commitment to reducing reliance on oil and promoting the private sector.

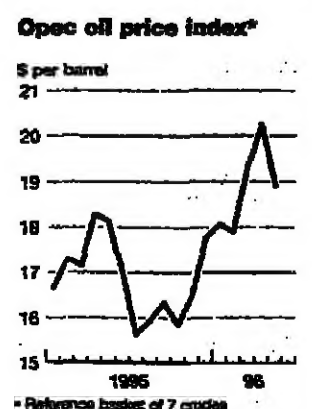
King Fahd's illness in recent months seems to have slowed the momentum for economic decision-making this year. Economists fear that the sec-

urity challenge posed by the recent attack on a US Air Force personnel compound in Dhahran, the second bombing in the kingdom in eight months, will relegate economic matters even further.

Meanwhile, political analysts are searching for signs of a power struggle within the royal family. Allocations of surplus revenue require a decision by King Fahd at a time when Crown Prince Abdullah has taken up much of the day to day business. Prince Sultan, the defence minister, is also intimately involved in decision-making.

According to Mr. Kevin Tackler, chief economist for the Saudi American Bank in Riyadh, possible priorities for spending the surplus revenue include expanding the military, accelerating payments to contractors for past work, retiring debt, giving more to government workers, helping with payments owed by government companies and early payments on military and civil aviation programmes.

Mr. Tackler says that the



Reference basket of 7 crudes

most effective way to use the funds is to put money in the hands of the private sector and increase consumers' buying power to stimulate growth. Setting payments to contractors and giving one-off extra pay to government workers whose salaries have been frozen for years would go some way to achieving these goals.

Security concerns, however, could take priority this year. Some economists are estimating an increase of 10 per cent in defence spending to strengthen security in military installations in light of the attacks.

Saudi Arabia's defence budget accounts for about 15 per cent of GDP, the highest in the world. Prince Sultan is seeking to build up the army and purchase new tanks, and proposals for US arms purchases may have already gone

through. The Crown Prince generally favours keeping a tight lid on spending. But the Saudi National Guard, the largely Bedouin force headed by the Crown Prince which looks after internal security and acts as a counterweight to the army, is believed to want to buy a large number of armoured vehicles.

Defence spending is one of two areas increasingly viewed with suspicion in business circles. The other is the estimated SR30bn in stipends distributed yearly to about 5,000 Saudi princes. Saudi businessmen argue that Saudi Arabia would not be able to defend itself against an aggressor and will seek outside help, so all it needs is a viable deterrent. They estimate that the air force is already well trained and both the air force and the army adequately equipped.

## Africa to have \$60m investment fund

By Joel Kibazo in London

The Commonwealth is launching a \$60m fund to invest in newly privatised companies and growing private companies in Africa.

The Africa Fund, to be launched by South Africa's President Nelson Mandela in London today, is the first in a planned series of regional investment funds to be established under the umbrella of the Commonwealth Private Investment Initiative. The initiative was first discussed at last year's meeting of Commonwealth finance ministers. Plans for similar funds for the Indian sub-continent, Pacific Islands and the Caribbean are under way.

The new fund is to be run by the Commonwealth Development Corporation (CDC), the UK's official development finance institution, which provided the seed capital of \$25m. The rest of the money was raised from third world Commonwealth countries including Singapore, Malaysia, South Africa, Zimbabwe and Botswana.

Management buy-outs will be considered as well as investments in privatised companies and in small and medium-sized private businesses. Initial investments are likely to be about \$3m and the corporation will rely on its 12 offices in Africa to look into companies in which it intends to invest.

Mr. Robert Binyon, managing director of CDC financial markets, said all investments would be on a "sound commercial basis". He added: "The Commonwealth is often only seen as a talking shop. But it needs to have a positive undercurrent of things going on such as this. The long-term objective is to act as a catalyst and attract other investors to Africa, especially those who may not have thought of investing in Africa without a fund such as this in existence."

CDC said it had a target of around 20 per cent of internal rates of return for the fund and indicated plans to tap international financial markets to increase it once the initial capital was invested.

## INTERNATIONAL NEWS DIGEST

## Loans for Aids vaccines urged

Developing countries should take out World Bank loans to pay drugs companies for vaccines against HIV and Aids, said the head of a new international pressure group, the International Aids Vaccine Initiative. Dr. Seth Berkley, IAVI's chairman, said that the costs of treating Aids victims was so high that borrowing to pay for vaccines would still leave a developing country better off. "Seventy per cent of teaching hospital beds in Uganda are taken up by Aids patients," he said at the Eleventh International Conference on Aids in Vancouver, Canada. IAVI's directors include African, Asian and American. It is backed by the New York-based charitable Rockefeller Foundation, where Dr. Berkley is associate director of health sciences.

The offer of hard currency payments by developing countries would create a market for an HIV vaccine where there was none now, said Dr. Berkley. Dr. Berkley said IAVI had already had talks with the World Bank and outlined a plan for 10 developing countries each to take a \$100m line of credit. He said that global annual spending on HIV/Aids was about \$10bn a year, of which two-thirds was on prevention and treatment. Of the \$2bn spent in research and development, less than 7 per cent was on vaccines. Daniel Green, Vancouver Technology, Page 5

## HIV drugs yet to be exploited

There are at least 12 classes of drug that could stop HIV, the Aids virus, of which only two have so far been exploited, said Dr. Didier Trono, of San Diego's Salk Institute for Biological Studies, at the Vancouver Aids conference yesterday. He said that at least 14 proteins had been identified as essential to the life cycle of HIV. The drugs already on the market, and which have proved promising when taken together, attack only two: protease and reverse transcriptase. "Some of the treatments discovered through such research [could] be non-toxic, easy to administer and, most importantly, inexpensive," said Dr. Trono. Daniel Green

## Niger general 'stages coup'

Political parties in Niger yesterday accused the west African country's military leader of staging a second coup d'etat as the results of two days of voting cast him as outright winner of presidential polls. A new National Electoral Commission, appointed on Monday after General Ibrahim Bare Mahassara suspended the previous one, gave him 52.22 per cent of the vote. General Mahassara's nearest rival Mr. Mahamane Ousmane - the civilian president ousted in a January putsch, notched only 19.75 per cent.

Outside observers are unlikely to judge the poll free and fair with voters unable to find their names on lists and soldiers surrounding opposition candidates' homes and snatching ballot boxes from polling stations. Michaela Wrong, Nairobi

## Mubarak to visit Turkey

Mr. Hosni Mubarak, Egypt's president, is due in Ankara today on a one-day visit. He is the first foreign head of state to visit Mr. Necmettin Erbakan since Turkey's first Islamic prime minister was appointed two weeks ago.

Mr. Mubarak is expected to encourage Mr. Erbakan's stated aim of improving Turkey's relations with the Arab world, strained by a military co-operation agreement with Israel in February. John Barham, Ankara



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## Joint venture component manufacturing operations will create up to 500 jobs

# Honda announces £80m expansion

By John Griffiths in London



Carmaker Honda and Unipart, the vehicle parts and accessories group formerly owned by Rover Group, are to set up three joint component manufacturing companies in the UK. Together with a fourth joint venture also being planned between Unipart and Kautex, the German plastics group, they will create 400-500 jobs and involve total investment of £80m (£124m).

Honda, currently producing 100,000 cars a year at its Swindon plant in south-west England, and Unipart - headquartered at nearby Oxford - announced the projects last night.

The Japanese company is also studying the prospect for further expansion of its Swindon plant over and above a

50 per cent capacity increase to 150,000 cars a year already planned for 1998. Like Nissan, it is considering a third model for the Civic and Accord.

Unipart's group chief executive, Mr John Neill, said the ventures made it increasingly clear that the UK had the potential to become "the enterprise centre of Europe". But he coupled the statement with a warning that the UK's attractiveness as a centre for foreign inward investment would be sharply reduced if the UK were finally forced to adopt the European Union's social chapter. "Put bluntly, if we don't already have signed up I don't think Honda and our other Japanese partners would have taken these projects on."

The three new joint companies formed with Honda of the UK Manufacturing are:

- Unipart Yachiyo Technology, which

will manufacture pressed steel body components and sunroof assemblies.

- Unipart Yutaka Systems, a venture with both Honda and Japanese components group Yutaka Giken, to make exhausts, catalytic converters and chassis components.

- Unipart Yanagawa Engineering, in which Japanese parts group Yanagawa Seiki is also a partner and which will produce gearbox components.

The venture with Kautex UK will involve building a new factory to produce plastic fuel tanks for Honda and other UK-based vehicle makers. While most of the new ventures' output will go to Honda's Swindon assembly line and to Unipart's other principal components customer, Rover Group, Honda is actively encouraging Unipart to find business for the ventures among its car-making rivals in Europe.

For Unipart, the ventures represent

by far the biggest pay-off to date for its long-term strategy to become a world-class components manufacturing group.

It spent several years in the late 1980s persuading Honda that it could meet Honda's cost and quality standards as a supplier. Mr Neill said: "We deliberately chose Honda as a manufacturer from whom we could learn how to become world-class."

Mr Kenzo Kato, managing director of Honda's UK manufacturing subsidiary, said yesterday the new ventures were a demonstration of Honda's "fundamental commitment to establishing long-term relationships with our suppliers; that commitment goes far beyond financial investment."

Unipart, which employs about 4,000 and had a turnover of £550m last year, is the single largest shareholder in the Japanese partnership ventures, with a stake of 45 per cent in each.

## 'Urgent' beef cut measures called for

By Neil Buckley in Brussels

Urgent measures are needed to cut beef production in the European Union and "rebalance" the beef market in the wake of the mad cow crisis, Mr Franz Fischler, EU agriculture commissioner, warned yesterday.

He also criticised beef traders and retailers for failing to pass on to consumers the fall in beef prices experienced by producers. Commission officials said retail beef prices should be between 8 per cent and 14 per cent lower in many countries, which could help rekindle consumer demand.

Speaking in Brussels to the EU's economic and social committee, Mr Fischler said the four-month-old BSE crisis had led to an 11 per cent decline in beef consumption, and beef stocks bought by the Commission to support the market likely to reach 800,000 tonnes by the end of the year.

He warned that such market intervention could never be a substitute for consumer demand, and there was a danger of intervention stocks overhanging and depressing the market. The EU can no longer sell beef stocks cheaply into the world market - a widespread practice in the 1980s - because of new rules restricting export subsidies.

Without "radical and immediate action" to rebuild consumer confidence and rebalance supply and demand, the jobs of millions of producers could be at risk.

Commission officials are thought to be considering a number of adjustments to the beef market, including re-examining premium rates for calves sent for slaughter and lowering weight limits for animals bought into intervention by the Commission.

Mr Fischler's warnings came amid mounting criticism of the Commission's handling of the crisis.

Mr Klaus Hänsch, the president of the European Parliament, has written to Mr Jacques Santer, Commission president, calling for the Commission to make a statement on the crisis to next week's parliamentary session in Strasbourg.

The UK government expects the European court to rule in favour of a partial lifting of the worldwide ban on British beef today.

"We are optimistic of a relaxation in the ban to third countries which can't export back to the EU," said Mr Douglas Hogg, the UK agriculture minister. That would open up exports to 70 countries which previously imported British beef.

Mr Nik Askarov, the managing director of ADM, one of the UK's biggest exporters, said business in those countries was worth between £150m (£332m) and £200m a year, out of an export total of £550m before the crisis. "It is quite a good thing because a number of African countries will buy on price, but it will take a very long time for trade to build up again," he said.

## LG says decision went further than just grants

Koreans' Welsh deal highlights battle for investment

By Stefan Wagstyl in London, John Burton in Seoul and Roland Adburgham in Cardiff

There were other considerations, besides grants," says Mr Koo Cha-Hong, president of the LG Group, the South Korean conglomerate which has announced plans to build a £1.7bn (£2.5bn) electronics complex in South Wales.

But grants certainly seem to have played an important role in the company's decision to choose Wales. Welsh government officials who observed the negotiations said the South Korean group exploited differences among the regions competing for the project to get the best possible deal. They said: "LG played it for all it was worth."

There is no suggestion that there was anything untoward in the behaviour of LG or of the Welsh Office and the Welsh Development Agency, which are giving LG up to £200m in aid. But the claims and counter-claims about the size of the award highlight how intense battles for inward investment have become.

When British officials first heard of LG's plans last year, they were astonished at their size. The plans announced yes-

terday are for two factories: a microchip plant to be built by LG Semicon, the group's semiconductor maker, employing 1,700, and a consumer electronics plant making television components and televisions which will create up to 4,400 jobs.

LG sees the scheme as the launch of an ambitious programme to increase sales from \$54m last year to \$650m in 2005, with overseas turnover rising from 20 per cent to 50 per cent of the total.

LG, the third largest Korean conglomerate, believes overseas growth is the solution to the problems afflicting all Korean conglomerates, including a stagnant home market, rising domestic wage costs and the threat of trade protectionism.

Although Asia remains the favourite destination for Korean investment, Europe has emerged recently as a new magnet for Korean factories as trade booms between Seoul and the European Union.

LG was an early pioneer in Europe, having established a VCR plant in Germany in 1986 followed by a microwave oven and television factory in north-east England in 1988.

In Europe, the UK was always a first-choice. Although Germany had been LG's origi-

nal European base, executives complained about growing wage costs. LG has increasingly preferred the UK because of lower wage costs, lower taxes, open economy and the English language, which is extensively taught in Korea.

Having decided on the UK, LG focused on the regions. Wales, Scotland and northern England got priority because they include most areas where maximum grants are available.

northern England was ruled out early because there was insufficient land by LG's existing plant. Also, LG did not want to compete head-to-head with Samsung, which had just opened a \$450m consumer electronics complex at Wynyard Park in north-east England.

Three factors seem to have given Wales a lead over Scotland - good early rapport with Welsh officials, the relative closeness of Wales to London, and the presence in Wales of a key potential supplier - Ocean Technical Glass, a Japanese-German joint venture in Cardiff, making high-tech glass tubes.

But discussions with the Welsh apparently ran into trouble since LG in early 1995 was talking about locating in western or central England. The WDA then increased its

aid offer to win back LG, according to persons familiar with the negotiations.

Having selected Wales, LG Electronics officials assumed LG Semicon, its 56-per-cent owned subsidiary, would follow. But as late as May, when the BBC first reported LG's plans, LG Semicon was still proposing a separate plant in Scotland or Ireland. Mr Michael Renshaw, the Scottish secretary, flew to South Korea



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amid Welsh fears that he was about to poach the chip plant. Meanwhile, Ireland was dropped by LG for lack of infrastructure.

But the LG head office intervened to bring the two schemes to one site to save costs. Mr Koo Cha-Hong, LG president, denied there were deep divisions between the two subsidiaries. "We sat down and compared the merits of Wales and Scotland. Wales won."

## Ministers deny over-generous financial aid

By John Burton, Roland Adburgham, Chris Tighe and Stefan Wagstyl

The British government yesterday denied that the grants of up to £200m given to the LG group for its £1.7bn investment in Wales were too generous.

Mr William Hague, the Welsh secretary, said the support was within guidelines set down by the Treasury and by the European Commission, which monitors aid across the EU for evidence of unfair subsidies. The package is the biggest ever offered to an inward investor to the UK.

Mr Hague was speaking in Seoul, Korea, where Mr Koo Cha-Hong, the LG president, yesterday confirmed plans to build an electronics complex with 6,100 jobs in Newport, south Wales, including

semiconductor and consumer electronics plants.

Mr Hague denied that British regions had engaged in a bidding war for the project, which also attracted keen interest in Scotland and northern England.

Mr Hague's comments were echoed in London by Mr Tim Eggar, the industry minister, who said that the British system in which regions compete for inward investment schemes worked very well. The proof lay in its success in bringing jobs to Britain, he said.

But some Whitehall officials expressed concern that the lack of a strong central authority for inward investment undermined efforts to co-ordinate British efforts. One official familiar with the LG negotiations said: "The behaviour of the regional authori-

ties just encourages the Korean response [of playing regions off against each other]. It was always competitive but it has become much worse."

The Department of Trade and Industry has an inward investment agency - the Invest in Britain Bureau - but it has less experience and fewer resources than the well-financed Welsh Development Agency and Scottish Enterprise.

Inward investment officials in the English regions complain that they find it difficult to compete with Wales and Scotland, which as well as having more funds for inward investment promotion, have their own cabinet ministers to speak for them in government and to meet potential investors.

Mrs Jo Chezal, director of international marketing for the Northern

Development Company, the north's economic development agency, said yesterday that Wales and Scotland had built-in advantages over the English regions. Welsh officials denied they had an unfair advantage saying that every large investment had to be approved at cabinet level. Also it had to meet EU guidelines - or risk being declared illegal.

The grant given LG is the equivalent of about £20,000 a job, which is considerably more than that awarded to most other investors, including the £16,000-£17,000 granted to Siemens, the German group, which is building a semiconductor plant in north-east England.

However, these awards pale in comparison with those paid in other European regions.

## Banks show drop in earnings from overseas activity

By Graham Bowley, Economics Staff

UK banks' net overseas earnings declined last year due to the increasing number of them being owned from outside the UK, lower overseas lending and reduced income from overseas interest rate derivatives.

However, UK insurance institutions registered their highest rise in overseas earnings since 1986, according to British Invisibles, the trade group for the financial industry. The total net overseas income of the financial sector rose to £20.4bn (£31.6m) last year from £18.8bn in 1994, the group's annual survey showed yesterday. Earnings from services were £12.2bn, 60 per cent of the overall surplus, £800m higher than in 1994.

The remaining £8.2bn was generated by earnings from investment income, also £8.8bn higher than in the previous year.

Booyant conditions on international stock and bond markets in 1995 boosted overseas earnings of pension trusts.

Pension funds' earnings rose to £2bn from £1.7bn. Unit trusts' earnings returned to their 1993 level of £72m, after

declining to £587m in 1994. But securities dealers had a worse year. Their net overseas earnings fell from £2.1bn in 1994 to £1.7bn. "Although the steep decline in dealing profits, apparent in 1994 was reversed, this was more than offset by a return to an outflow of earnings from direct investment," the survey found.

But the purchase of UK banks such as Barings, Kleinwort Benson and SG Warburg by overseas buyers meant there was a £1.5bn outflow of investment income from the banking sector last year.

This meant banks' net earnings fell from £7.5bn in 1994 to £6.2bn last year. Banks' overseas earnings were also hit by lower volumes of overseas lending.

Insurance institutions' earnings rose from £4m to £6m, benefiting from a big rise in direct investment income. This grew from £46m in 1994 to £1.1bn in 1995.

Insurance institutions' portfolio investment incomes rose from £2.1bn to £2.2bn last year. Lloyd's earnings rose sharply from £78m to £1.6m. This included "a doubling of portfolio investment income and a further rise in net underwriting income," the survey found.

## Protestants under peace spotlight

Violence in N Ireland has taken attention off republican movement

For once, the prospects for peace in Northern Ireland do not rest on the shoulders of Mr Gerry Adams, of the Sinn Féin party of which he is president, or of the Irish Republican Army. As the region slides back towards bigotry and sectarianism, attention has shifted to the leaders of the Protestant "loyalist" paramilitary groups.

At the UK parliament, there is little doubt that the murder on Monday of a Roman Catholic taxi driver, Michael McGoldrick, aged 31, who wanted to be a teacher, was shot in his taxi a few days after graduating from Queen's University, Belfast, with a degree in English and politics.

British ministers still believe there is a chance of preventing a repetition of the sectarian murders that continued until the IRA called a ceasefire in August 1994. They hope to persuade the Protestant paramilitaries not to end the ceasefire they declared a few weeks later.

The UK and Irish governments have known for some time that loyalist political leaders had been holding the line with considerable difficulty following the IRA's return to violence in London's Docklands district in February. Irish leaders, fearful that a return to Protestant terrorism might involve targets in the Republic of Ireland, have been effective

in their praise for loyalist leaders in Northern Ireland. In spite of causing mayhem with bomb attacks in London and Manchester, the IRA has studiously avoided escalating the conflict in Northern Ireland. During the early 1990s republicans were literally out-gunned by loyalists. One of the arguments that led to the IRA ceasefire was that violence was counter-productive within the community. More Roman Catholics were killed in reprisal attacks than Protestants.

The past week's events are likely to play into Mr Adams' hands, allowing him to present his credentials as a voice of moderation. "Just when we thought we might have seen

the last of it, the worst excesses of tribalism have returned to the surface," said a senior member of Britain's governing Conservative party.

In a return of events at the start of the "Troubles" more than 25 years ago, it is Catholics who are seen as the victims of an aggressive majority, with British security forces coming to their aid.

One of the few possible benefits has been to defuse some of the clamour among nationalists for radical return of the Royal Ulster Constabulary, the Northern Ireland police force, which has been making concerted attempts to shed its image as the law-enforcement agency of Protestants.

In the short term ministers have made clear that the RUC chief constable and his deputy have their full backing and complete autonomy. "This is a last-and-order issue," said a cabinet member. "Political compromise does not come into it."

The broader task is to ensure that voices of moderation are not drowned out. The multi-party talks in Belfast are in danger of petering out, their reason for existence undermined by the IRA's refusal to restore its ceasefire and unionist antipathy towards Mr George Mitchell, the former US senate majority leader, who is chairman of the talks.

Mr David Trimble, leader of the Ulster Unionist party, the largest pro-British party in Northern Ireland, is being given the benefit of the doubt by politicians in London and Dublin, who acknowledge that during the traditionally tense marching season, culminating tomorrow when Protestants commemorate their victory over Roman Catholics at the Battle of the Boyne, he had little choice but to be at Portadown, the scene of fierce clashes between headline Protestants and the police. But he will have been warned by ministers in London that the scenes will have done nothing to strengthen the unionist cause among British voters.

John Kampfner

## UK NEWS DIGEST

## Strike bans to be considered

Plans to ban strikes in essential UK services could be included in the governing Conservative party's election manifesto. The controversial proposal is being considered in response to the industrial unrest which has hit London Underground and Royal Mail and which threatens British Airways. Mr Ian Lang, trade and industry secretary, is keen to press ahead with the idea, although Downing Street said last night the government had "no current plans to outlaw strikes in essential services through primary legislation". Conservative Central Office said the issue was being "kept under review".

Workers who might be covered by such a strike ban could include those in the transport gas, water and electricity industries, as well as doctors, nurses and ambulance workers, fire-fighters and the police.

Robert Taylor, London

## NUCLEAR PRIVATISATION

### British Energy offer popular

Small investors may get up to 50 per cent or more of the British Energy privatisation, it emerged yesterday after the offer to small investors closed well oversubscribed. The UK government had allocated 30 per cent of the nuclear power company for small investors. But these investors applied for more than twice that amount. Estimates compiled after the close of the offer suggested that there were more than 520,000 applications for about 380m of the 510m shares on offer. Final figures are expected today. The level of retail investor support surprised some analysts especially as British Energy, which operates eight nuclear power stations in the UK, is not expected to report sufficient profits to cover the first year's dividend.

Simon Holberton, London

## BREWING

### Pub company seeks new deal

Entrepreneur Pub Company, the UK's largest pub chain outside brewery ownership, is seeking permission from the Office of Fair Trading to drop undertakings it made five years ago to help preserve competition. Some brewers are likely to lobby hard against Intreprenuer, fearing that OFT approval will give the chain massive buying power. Its 2,900 pubs equal nearly 9 per cent of British pubs outside of brewery ownership.

Roderick Oram, London

## PROPERTY

### Development contest launched

Standing on the roof of his department's headquarters, Mr John Gummer (left), the UK environment secretary, described the 18-storey building yesterday as "the most discourteous and rude" in central London. Few would disagree with this harsh assessment of 2 Marsham Street, which has dominated the skyline since it was built in the late 1960s. Mr Gummer was launching an architectural competition for a new development to replace the three concrete towers, which are already crumbling. He will be one of 12 competition judges, along with Mr Michael Heseltine, the deputy prime minister, and representatives from the property industry and community groups.

Simon London, London

## MOBILE PHONES

### Orange defeats rival in court

Orange, the mobile phone operator, yesterday claimed a comprehensive victory over Vodafone, its larger rival, after a High Court judge threw out allegations that the smaller company made false claims in a £10m (£15.5m) advertising campaign. Mr Justice Jacob dismissed Vodafone's action - for malicious falsehood and infringement of trademark - and awarded costs to Orange. He said aspects of Vodafone's case were "hopeless". Vodafone, the UK's biggest mobile operator, took court action after Orange refused to withdraw last autumn's campaign focusing on cost savings offered by its business services.

Alan Carr, London

## WATER

### Watchdog warns of higher costs

A UK consumer watchdog has warned that water bills could rise "substantially" because of future European directives as Britain's privatised water utilities come under increasing pressure to improve compensation to customers. The National Consumer Council, part of OFwat, the water industry regulator, said the European Union's draft revised Drinking Water Directive is likely to cost £2bn (£3.12bn) over 15 years, adding 15 pence a year to average bills to meet the cost of replacing lead pipes. Mr Jim Gardner, chairman, warned it would be too late to discuss the measures by the time of the next review of water price controls.

Jane Martinson and George Parker, London

## VEHICLE PRODUCTION

### Peugeot recalls 150,000 cars

Some 150,000 Peugeot 306 cars built by the French group's UK subsidiary, are being recalled to remedy possible wiring faults that could lead to under-bonnet fires. The recall covers only right-hand drive models sold between April 1995 and the end of February 1996 and follows 20 instances of wiring malfunction, some of which led to fires.

John Griffiths, London

## FAMILY PLANNING

### Birth control - use of contraceptives

Country	World ranking	% couples using contraception
China	1	85
France	2a	81
UK	2b	81
Italy	3	78
Germany	15	75
US	19	74
Haiti	102	10
Nigeria	112	6
Maldives	118	3

Source: World Bank, International United Nations Population Division

## China tops use of contraceptives

China heads the world usage of contraceptives, with 85 per cent of Chinese married couples using them, according to a study released today. The UK and France share second place, the study, by Marie Stopes International, the family planning charity reveals. The table shows the percentage of married couples of reproductive age using contraception. Former Yugoslavia has Europe's lowest rate of contraceptive use - 65 per cent. In Africa there are 16 countries in which less than 10 per cent of couples use contraception. The pill is the most popular contraceptive in Europe, Africa and the Arab world. But female sterilisation is the preferred method worldwide - used by 35 per cent of couples.

Claire Cookson, London







Cinema/Nigel Andrews

## Singalong with gargoyles

Cultural crises always come in groups. Just as the French begin to recover from Disneyland, they get *The Hunchback of Notre Dame*. This is the same kind of animal, albeit of a different colour. Not so much a white elephant, more an all-singing, all-dancing pachyderm in shades of russet, pink and olive-gold.

Disney's 34th animated feature begins so promisingly. The serial camera swoops over the Gothic towers and arched windows of the cathedral, while Paul Kandel's voice belts out the rousing opener, "The Bells of Notre Dame". We feel a little sick, but it is nothing to the sickness to come.

This early, we sense that Victor Hugo might have given his approval to the sweeping views of Paris squares and to the film's equally vertiginous villain: the tall, lean, sepulchre-faced Judge Frollo, deftly voiced in speech and song by Tony Jay. But he would have withdrawn all blessing at the first sight and sound of Quasimodo, Esmeralda and the Gargoyles.

These sound like a rock group and pretty much believe like one. She is a gypsy with a voice like a sexy, blundering accident; it sounds like it is - Demi Moore. He is a bad artist's impression of Charles

Laughton with a "Gee, golly" American voice (Tom Hanks). And the Gargoyles are the "comic" relief, a trio of stone faces brought to life complete with beaky stone torsos. They could be three amputees trying to live up a hospital party. Once the plot gets going, the miscalculations multiply. The songs sound like poor relations of *Les Mis*, another renowned Hugo singalong. The images veer between repetitive virtuosity (so much computer-aided scaring and swooping) and strict grand guignol. And Frollo apart, the best character is Esmeralda's goat - we kid you not - a bearded, lollypop-chamber who is thrown away in a few visual sables.

*The Cable Guy*, vilified by many American critics, proves a blessed relief. Jim Carrey may resemble a quarter-back more than a hunchback, but he can swing from the movie masonry with the best of them. Here his manic cable-installer befriends, or more exactly socially terrorises, mild-mannered yuppie Matthew Broderick. No sooner has Carrey plugged Broderick in to the delights of umpteenth-channel viewing than he tries to hotwire their relationship with gifts, phone calls and nights out at gaudy mock-medieval restaurants.

This is *Fatal Attraction* without the sex. Or perhaps the sex is there but hidden. Carrey's obsession is explained only by

**THE HUNCHBACK OF NOTRE DAME**  
Gary Trousdale and Kirk Wise

**THE CABLE GUY**  
Ben Stiller

**THE CELLULOID CLOSET**  
Rob Epstein and Jeffrey Friedman

**KINGPIN**  
Peter Farrelly and Bobby Farrelly

**FEAST OF JULY**  
Christopher Menaul

**THE TIT AND THE MOON**  
Bigas Luna

a brief, perfunctory backstory - as a child he longed for a younger brother - but then it really needs no explanation. It is enough to note this man's skewed expressions, elaborate lip, eyes like twin tunnelling drills and cryptic body language to realise that he is a force of natural insanity, like Norman Bates or Jerry Lewis.

At \$20m a role, Carrey is the highest paid comedy star in movie history. But what should

one pay for a man who turns each facial reaction, each line-reading into a vaudeville routine? It is not just the elasticity, it is the timing. When Broderick, troubled by his new friend's unacknowledged speech defect, says gently "My brother is a speech therapist", Carrey replies with a slow, perfect, faintly hostile incomprehension, "Thot?" And when the after-meal jousting begins at the restaurant - but no, there are some moments you should savour for yourselves.

*The Celluloid Closet* is a history of homosexuality in Hollywood cinema. Film-makers Rob Epstein and Jeffrey Friedman, adapting the 1981 book by gay film critic Vito Russo, peer into the shadowy cupboard space of American movies to see how, when and in what guises homosexual characters were allowed to show, or half-show, themselves.

Mostly it is the usual suspects. The non-denominational sissy (Edward Everett Horton); the cross-dresser (Dietrich in *Some Like It Hot*); the mixed-up kid (Sal Mineo in *Rebel Without a Cause*); the man or woman with a frightful Unexplained Secret (Cliff in *Suddenly Last Summer*, MacLaine in *The Children's Hour*).

Funny and informative, the film rounds up its own raccoons, including Armistead

Maupin, Tom Hanks, John Schlesinger and Miss MacLaine. And Gore Vidal tells tales out of school about the homosexual subtext he wrote into one scene of *Ben-Hur* in an interview that has had Charlton Heston raging across America about revisionist gay screenwriters. (With apologies like that, who needs friends?)

Between the experts come the excerpts, rendered cherishingly by time. In *Gentlemen Prefer Blondes* Jane Russell's dance in the shipboard gym, with self-absorbed Adonises somersaulting all around her, is a riot of pre-Village People kitsch. And Rock Hudson "pretending" to be gay in order to get close to Doris Day in *Love Came Back* has so many ironies that it is like gazing into a hall of mirrors.

There are notable omissions. Where is Clifton Lawton Webb, wit, savant and misogynist? Where is Louise Brooks, swooningly androgynous in boy's clothes in *Beggars of Life*? And never mind actors, what about the directors? The film seems not even to notice the monstrous irony that one of its hand-picked films *The Boys in the Band* - virtually the first to show gay men openly living and interacting - was directed by the same man, William Friedkin, who perpetrated *Cruising*, rightly picked out as the great homophobic trendsetter of modern genre



Quasimodo in Disney's misjudged version of 'The Hunchback of Notre Dame'

cinema. Surely worth a quizzical aside?

The rest of the week is barely worth that. Pins are what you should stick into yourself during *Kingpin* if you wish to stay awake - but then why should you? - during this lacklustre comedy about bowling. Woody Harrelson and Randy Quaid wander the West seeking whom they may con. Woody is a bowling alley hustler with an iron hook for a hand. Randy is an Amish in a blonde Shirley Temple hairdo.

Why the hook? Why the hairdo? Why not. Something has to amuse us during the long hours between the guest vignettes by Bill Murray, who

cleans up the film every time he appears as a fright-wigged fellow hustler effervescing with mean one-liners.

*Fear Of July* takes us deep into Merchant-Ivory country and leaves us there, without food, money or the means to get home. This is an R.E. Bates-based tale of an adopted girl (Embeth Davidtz of *Schindler's List*) who, after miscarrying an illegitimate child, throws herself on a family's mercy in late-Victorian provincial England.

Three brothers vie for her love, while she, they and the parents (Tom Bell, Gemma Jones) grieve through the post-Industrial Revolution murk.

The purring rivers, lamplit streets and cobblestones all have more vitality than the cast or direction, which both seem struck down by a bad case of Literary Respect.

At least Spain's *The Tin Moon*, directed by Jamon Jamon's Bigas Luna, is equipped with the eye-pleasing items of the title. The moon gleams down on nine-year-old Tete (Biel Duran), who bends his own gleaming face to the gorgeous gypsy girl (Mathilda May) whom he spies on daily in her nearby caravan. She in turn owns the shiny mammary objects coveted by him and his teenage brother. Farouche, Fellini-esque, quite funny.

Theatre/Alastair Macaulay

## A very British 'Uncle Vanya'

A Chekhov play is not Chekhovian if it is not full of contradictions. A says "The world is getting worse and worse", B says "In two or three hundred years' time, human existence will be wonderful", C says "My whole life is meaningless", D says "I'll make the tea." Sometimes it is the same person who utters self-contradictions or inconsistencies. Is life futile? or useful? In Chekhov, both. But there is no contradiction, no conflict, no urgency, in the new Chichester *Uncle Vanya*. Directed by Bill Bryden and cast from strength with Derek Jacobi, Trevor Eve, Alec McCowen, Frances Barber, Imogen Stubbs, Peggy Mount and Constance Cummings, it is passive, polished, tepid, insincere. It is not, in any serious way, Chekhovian. More important, it is not interesting.

The most disturbing thing that happens in the whole staging is when Barber, as Sonya, hurries down a trayful of medicines at her hypochondriac father, Serebryakov (McCowen). And Barber - though some of her performance is unsuccessful - seems to be the only actor in the cast interested in reconceiving the character she plays. Peggy Mount, as the old nanny, reconceives nothing; but she illumines every little scene she plays with her sheer humanity. The edge of cheerfulness with which she says "They've gone!" in the closing scene is beautifully funny, one of several moments in which she refreshes a staging that keeps growing stale about her. Cummings is charmingly simple and dignified in her tiny role as Vanya's mother.

There is little humanity or sincerity to be found elsewhere. There is, however, a great deal of acting. Mellow, skilled, charming acting, much of it, often intelligent, often sensitive. But futile, so that the futility of life that Chekhov tries sometimes to suggest turns here to mere torpor. All the big climaxes of the play - Vanya (Jacobi) and Astrov (Eve) being drunk together at night, Vanya entering just as Astrov is kissing Yelena, the woman he himself adores (Stubbs), Vanya trying to shoot his ex-brother-in-law Serebryakov (McCowen) - dissolve in this production into mere acting. Likewise all the big moments of energetic talk - Astrov enthusing about trees, Yelena admitting to herself that she is attracted to Astrov, Vanya exploding about how he has wasted his entire life - ebb away into pretty assemblages of actorly effects.

Listening to the fruity pyrotechnics of Jacobi and McCowen is like going to a "Three Tenors" concert. Their burnished tone formation and sculpted vowels are always a treat, of course, and no sooner does Jacobi here build his biggest scene up to a few splendid top notes and departs, than McCowen promptly hits some yet higher and yet louder notes. And, to these older but more technically accomplished guys, Trevor Eve is happy to play Carreras: he switches on the intensity, the charm, the ardour, the moodiness in seamless virtuoso arcs, none of which ring true for a moment.

Stubbs, alas, really does not belong on the same stage as these clever old thespians. No doubt she means to show that Yelena is a superficial and silly woman, but she does so with so much superficial and silly acting of her own that one grows quite confused. Barber, whose account of Sonya is inhibited and schoolgirlish in its bold moments, unfortunately takes a few leaves out of Stubbs's book as the play develops.

Bryden's production epitomises all that is worst in British Chekhov. Not so much elegant as stagnant; mixing artful

with a *Hedda* recital; and now and then a few unconvincing noises off. The amplified scratching of a pen in the closing scene reminded me of *Acorn Antiques*.

Minerva Theatre, Chichester, until July 27.



Much acting, little humanity: Trevor Eve and Imogen Stubbs

Ballet/Clement Crisp

## Rambert ascending

I said to a long-time associate of Dame Marie Rambert: "She's there on her cloud feeling very happy tonight." "Yes," came the reply, "and busy counting the house." For there was her company, now Rambert Dance but still here in spirit, taking the stage with a sumptuous of dancing. This week's season shows the troupe dancing better than ever before in my experience - which goes back to Ballet Rambert's days on the 18-foot-square stage of the Mercury Theatre in Notting Hill Gate.

All honour to Christopher Bruce for having inspired the ensemble which he now directs to this level of excellence. I can even forgive the patronising subtitle for this venture as "The People's Season", which equates the laudable price limit of £20 for a seat with some illusory crowd of proles who do not, or will not, pay more for dance. "The people" will go to dancing if it is well presented: it is a tragedy for all forms of dance in this country now that marketing is feeble, off-putting. This season has been well-sold, but it deserves success for artistic rather than pricing reasons.

The opening of the first programme on Tuesday night was, though, calculated to send music-lovers screaming into the night. It was no less calculated to send dance-lovers towards the nearest exit. Rambert has a fine orchestra in Mark Stephenson's London Music, and to find Mozart and Bach degraded by fatuous choreography is bad news.

Jiri Kylian's *Petite mort* - is a euphemism for orgasm - is

about six men in fortified beige knickerbocks who are armed with foils. (Ah, the subtle imagery.) Six girls, hidden behind ambulant cut-outs of dresses but also daintily attired in underwear, join them. The men strut, the girls are manhandled, and Kylian's musical sensitivity - akin to Jack the Ripper's feeling for petti-point - sets them grappling to two slow movements from Mozart piano concerti (including, inevitably, that known to "the people" from *Elvira Madigan*). The piece is typical of Kylian's turgid, gymnastic manner. It is sensationally done by Rambert's artists, who take to the Coliseum stage as to their native heath.

Worse follows. *Ariana* 7 is a clunker from Ohad Naharin, who dresses 19 dancers like waiters at Le Pansy Café, seats them on chairs, makes them take their clothes off and ram-page pointlessly, while Mark Stephenson's musicians play Bach's fourth Brandenburg concerto in fine style. In a moment of silence a couple of chaps show us that it takes two to tangle. The Rambert dancers are superb, but they would be better employed throwing rocks at Mr Naharin than rushing about in this foolish exercise.

Order was restored with another serious score, again well performed. Robert Coban's realisation of Vivaldi's *Stabat Mater* is a luminous work for eight women who surround the lovely Sara Mathews, whom we identify with the Blessed Virgin. Coban's choreography is absolutely sure

in its simplicity and purity of means: it is reminiscent of a Martha Graham piece from the 1930s. Given with a serene purity of style by its cast, it has quietness of spirit, and is to be treasured because of this, and because of the women's sensitivity.

This first programme ends with Bruce's affirmation of faith in international amity - the brave *Meeting Point* he made for last year's San Francisco shindig to celebrate 50 years of the United Nations. Much of what was on show as dance on that occasion deserved rigorous sanctions. Bruce's dances, with their assured nod at *The Green Table*, reminded audiences of the virtues of well-made choreography and of gifted and dedicated dancers. The piece looks splendid on the Coliseum stage, and it is danced with tremendous verve. The score, a saxophone concerto by Michael Nyman, is redeemed by the dazzling playing of Gerard McChrystal.

The evening ended, as it should, in cheers and more cheers. Seventy years after Marie Rambert took her first little group of students - they included young Fred Astaire - to dance in a revue in Hammersmith, and after Hinakayan ups and downs of fortune, Rambert Dance has climbed Everest and proudly placed its flag on the summit. Cheers for them. And cheers, too, for Granada Group, who have sponsored this season.

The Rambert season continues this week. Additional sponsorship by The Quercus Trust, Mr & Mrs George London, and LOOT.

## INTERNATIONAL ARTS GUIDE

## AMSTERDAM

**CONCERT**  
Concertgebouw Tel: 31-20-5730573  
● Maria João Pires, Augustin Dumay and Jian Wang: the pianist, violinist and cellist perform works by Schubert; 8.15pm; Jul 14  
**EXHIBITION**  
Stedelijk Museum Tel: 31-20-5732311  
● Cohen en het Stedelijk exhibition of the museum's collection by participants of the international art group CoBRA. The works on display, approximately 150, span the period from 1948 to 1982. Included in the exhibition are 17 works by Cornelie that were donated to the museum by the artist last year; from Jul 12 to Sep 15

## ANTWERP

**OPERA**  
De Vlaamse Opera  
Tel: 32-3-2336808  
● La Fanciulla del West; by Puccini. Conducted by Silvio Varviso and

performed by De Vlaamse Opera. Soloists include Stephanie Friede, William Stone and Richard Margison; 8pm; Jul 12

## BAD KISSINGEN

**CONCERT**  
Kissinger Sommer Internationaler MusikFestival Tel: 49-971-907110  
● Münchner Rundfunkorchester: conductor Fabio Luisi, soprano Christiane Oelze, alto Jochen Kowalski and baritone Boje Skovhus perform excerpts from Die Lustige Witwe and Die Fledermaus; 8pm; Jul 12

## DUBLIN

**CONCERT**  
National Concert Hall - Geórgios Ntáziotis Tel: 353-1-6711888  
● The Irish Chamber Orchestra: with conductor/viola-player Bruno Giuranna and violinist Bruno Gulli perform works by Mozart and Britten; 6.30pm; Jul 12

## ESSEN

**EXHIBITION**  
Design Zentrum Nordrhein Westfalen Tel: 49-201-8202118  
● Design-Innovation '96: exhibition showing a selection of works competing for this year's international industrial design award; to Aug 25

## GHENT

**EXHIBITION**  
Museum voor Sierkunst en Vormgeving Tel: 32-9-2256676

● Jan Eiseleff. Art Nouveau-gebruiksobjecten in zilver, email en goud: retrospective exhibition devoted to the work of the Dutch decorative artist, gold and silversmith Jan Eiseleff. The display features some 200 objects, including coffee and tea sets, dishes, jewellery, clocks, lamps and cutlery; to Sep 15

## GRAZ

**CONCERT**  
Styriarte Graz Tel: 43-316-70313835  
● Heidelein XX: with conductor Jordi Savall and soprano Montserrat Figueras perform music from "El Siglo de Oro", the golden age of Spanish music which coincided with the discovery and conquest of America; 8pm; Jul 13

## HOUSTON

**EXHIBITION**  
The Menil Collection Tel: 1-713-525-9400  
● Georges Rouault: exhibition of works by Georges Rouault (1871-1958) including 75 paintings, works on paper, and objects drawn primarily from The Menil Collection holdings; to Aug 18

## LAUSANNE

**EXHIBITION**  
Fondation de l'Héritage Tel: 41-21-8205001  
● Armand Guillaumin 1841-1927. Un maître de l'impressionisme français: retrospective exhibition devoted to the work of the French

Impressionist Armand Guillaumin. The display includes more than 150 paintings, drawings, pastels and engravings from public and private collections in Europe and the United States; from Jul 12 to Oct 20

## LONDON

**CONCERT**  
Wigmore Hall Tel: 44-171-9352141  
● Florilegium and cellist Pieter Wespelwey perform works by Arne, Storace, Haydn and J.C. Bach; 7.30pm; Jul 12  
**EXHIBITION**  
National Portrait Gallery Tel: 44-171-5860055  
● John Deakin - Photographs: retrospective of the photographic work of John Deakin (1912-1972). The exhibition comprises more than 100 black and white prints with emphasis on Deakin's portrait work. Also included are his fashion and urban landscapes as well as a selection of the photographs taken for Francis Bacon to form; to Jul 14  
Tate Gallery Tel: 44-171-8878000  
● Still But Not Silent: this exhibition brings together still life paintings and sculptures from the Tate Gallery's collection by British and foreign artists. The works range in date from the late 17th century to the present day; to Jul 14  
**THEATRE**  
Barbican Theatre Tel: 44-171-6384141  
● Romeo and Juliet by Shakespeare. Directed by Adrian Noble and performed by the Royal Shakespeare Company. The cast

includes Christopher Benjamin, Susan Brown, Julian Glover and Michael Gould; 7.15pm; Jul 12, 13 (also 2pm), 15, 16 (also 2pm)

## LOS ANGELES

**CONCERT**  
Hollywood Bowl Tel: 1-213-850-2000  
● Hollywood Bowl Orchestra: with conductor John Mauceri, vocalists Jodi Benson, Lorna Luft and Harry Groener, pianist Leon Bates and The Mitch Hanlon Singers perform selections from *Glory and I Got Rhythm*; 8.30pm; Jul 12, 13, 14 (7.30pm)  
**EXHIBITION**  
Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100  
● Landmark in Printing Collecting: Masterpieces from the British Museum: the first exhibition of 100 prints selected exclusively from the British Museum's collection to travel to the United States. The show features works spanning the history of western printmaking from rare 15th century German woodcuts to American etchings and lithographs of the 20th century; from Jul 12 to Sep 29

## NEW YORK

**CONCERT**  
Avery Fisher Hall Tel: 1-212-675-5030  
● Mostly Mozart Festival Orchestra: with conductor Claus Peter Flor, pianist Horacio Gutierrez and violinist Pamela Frank perform works by Mozart and Schubert. Part of the

Mostly Mozart Festival; 8pm; Jul 12, 13  
**EXHIBITION**  
International Center of Photography Tel: 1-212-580-1777  
● Landscapes of the Civil War: Newly Discovered Photographs from the Medford Historical Society: assembled from more than 5,000 Civil War original albumen prints in the collection of the Medford Historical Society, this exhibition of close to one hundred prints provides an opportunity to survey examples of Civil War photographic reports.  
The prints on display are in unusually fine condition for works of this period, as they were seldom handled or exposed to light before their rediscovery in 1990. The exhibition presents the work of photographers such as Alexander Gardner, George N. Barnard, A.J. Russell and Thomas C. Roche as well as the work of many unknown photographers; from Jul 12 to Nov 10

## ZURICH

**OPERA**  
Opernhaus Zürich Tel: 41-1-268 6666  
● I Matrimonio Segreto: by Cimarosa. Conducted by Adam Fischer and performed by the Oper Zürich. Soloists include Melin Martellus, Isabel Rey, Stefania Kaluza and Anton Scharfner; 7pm; Jul 12, 14

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10.00 European Money Wheel

18.00 Financial Times Business Tonight



## COMMENT &amp; ANALYSIS



Peter Martin

## The spirit of temptation

Big drinks companies are being urged by impatient shareholders to improve earnings, but Guinness and others are finding it hard to expand in new markets

One way of looking at the Guinness story is to see it as a fable of Virtue Resisting Temptation. Britain's biggest consumer goods exporter by a factor of four, a company generating pre-tax profits equivalent to nearly 50 per cent of sales, is under pressure from those perennial moaners, the shareholders. The company is going sideways, they complain: earnings per share are below the level of five years ago.

Casting around for a Big Idea to get the shareholders off their backs, Guinness's directors think the unthinkable - what about a takeover bid for the biggest UK-based rival, Grand Metropolitan? Ever-helpful, the merchant bankers prepare reams of feasibility studies.

To get the full flavour of the fable, you should picture the subsequent board meeting as a Teapole, a symphony of pinks and light blues. The Guinness board, upright citizens to a man, is recoiling in horror at the gaudy image of Temptation, a lady with an all-too-obvious past. Pushing her forward are a group of well-dressed attendants who have clearly profited from similar transactions many times before: lurking in the background is the lady's former consort, a titled gentleman of retiring aspect.

To sketch the picture is to know the outcome: Guinness's directors resisted the temptation. It would be churlish to suggest they might have been swayed by the thought that picking a fight with Grand Met is only one degree safer than tugging with Tiny Rowland in his prime. No, put the decision down to pure high-mindedness, a suddenly rediscovered commitment to the words of the chairman's statement published only a few months before. "Our business is about growing brands of alcoholic drinks around the world," wrote Tony Greener then. "That strategy is essentially an organic one."

Easier said than done, alas. Guinness, like the other mem-

bers of the world's international spirits league, must cope with a number of difficult issues. The biggest one - as the latest shareholder rumblings suggest - is the burden of exaggerated expectations built up by the industry's astonishing success in the late 1980s.

Almost overnight, the industry transformed its economic structure, moving from a business model in which the distillers handed over most of their profit to their fiercely independent importers and wholesalers to one in which they owned their own distribution networks. Not only did they keep much more of the value added, they were able to market their products effectively as global consumer brands, in a way the old fragmented distribution pattern had prevented.

This one-off shift in profitability coincided with another unrepeatable event - the bubble of prosperity and confidence in the late 1980s. Such fleeting public moods have particular significance for the manufacturers of luxury goods and premium brands: they encourage consumers to believe that only the best is good enough, and only the most expensive is the best.



In such an atmosphere, it was easy for the distillers to think that higher prices would compensate them for the shift in taste away from brown spirits such as whisky and brandy. At the very least, they could hope that consumers who drank less would drink better, moving up-market towards more expensive brands.

If that was ever true, it required more in the way of advertising expenditure than the spirits companies were willing or - given the scale of hostility to drinks advertising in many developed countries - able to spend. As might have been predicted, volumes have suffered throughout the 1990s. According to the industry newsletter Impact International, Guinness's spirits volumes have fallen at an average annual compound rate of 0.9 per cent since 1990, Allied Domecq's by 1.5 per cent. Grand Met's are flat. The top 10 brands are down by 1.1 per cent a year over the period.

But the anticipated offsetting gains in margins have been slow to materialise. Guinness's operating profits on spirits have dropped back from over 30 per cent of sales in 1990 to around 26 per cent - slightly higher than in 1994 and well above the levels of

the mid-1980s, but the trend is worrying all the same.

Still, the industry is highly profitable, with enviable brands and a much stronger global distribution system. In that respect it has survived the difficult early 1990s in good shape. As the Guinness board's ponderings make clear, the problem is not so much how to cope with past bad times as how to ensure continued growth now things are better. The industry's future clearly lies in emerging markets where tastes are not yet fully formed, brand images are open to manipulation and the demographic is favourable.

After all, such markets have transformed the outlook for the tobacco industry in the past decade, and tobacco companies were faced with much more adverse shifts of developed-country habits than anything the spirits industry has had to cope with.

Yet these markets are also the home of the biggest gap in the spirits industry's global achievement. Merely to read down Impact's list of the world's top brands is to get a measure of that failure. Head of the list is Stolichnaya vodka, which sells 60m nine-litre cases worldwide, 53.3m of them in Russia. That's not so surprising, you say. But guess what comes next? It is Jintaro Soju, a white spirit from Korea, which sells 43m cases, up 6 per cent from the year before. Next comes another Russian domestic-market vodka, Moskovskaya, and after that another drink you have probably never heard of, Pirassununga 51, an agave-juice from the north Atlantic. If they try to break into the parts of the market where growth is strongest, they face a frustrating time: haggling to buy local brands, dealing with pricing, costs and cultural frames of reference with which they have no instinctive sympathy.

Rejecting temptation, as the Guinness board will discover, yields at most a brief glow of virtue before the dilemma returns, just as strongly as before.

Here is the issue: as these countries grow rapidly in wealth and consumer sophistication their citizens are drinking a bit more of the west's premium products. But they are drinking a lot more of their local brews, and each year the marketing effort

behind them gets smarter. The global spirits companies have made no real inroads into these traditional markets. Not surprisingly, perhaps, such products sell at prices well below those of the premium international brands and ownership of local distillers is tightly held. But unless they enter these markets, the big companies may find that much of the growth of the emerging economies escapes them. There was a worrying signal last year when growth of the international brands slowed in many emerging economies, but sales of local brands continued to rise rapidly.

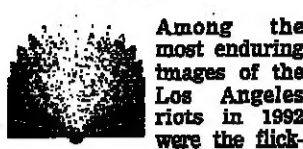
Despite the marketing-speak from the global distillers, alcohol is not like other branded consumer goods: it is intimately related with social ritual in many countries. To succeed in launching an imported brand is to tap into a country's central myths. As societies gain in affluence and confidence, they are - not surprisingly - more choosy about the myths they are prepared to subscribe to, a trend which partly offsets the homogenising effects of global culture.

The big spirits companies face a difficult choice. If they restrict themselves to the premium global brands they have successfully exploited so far they face a future of frustrated growth expectations and an ever-present temptation to merge in order to cut costs. But at least they will be operating in familiar territory, manipulating the social rituals and cultural iconography of the north Atlantic. If they try to break into the parts of the market where growth is strongest, they face a frustrating time: haggling to buy local brands, dealing with pricing, costs and cultural frames of reference with which they have no instinctive sympathy.

Rejecting temptation, as the Guinness board will discover, yields at most a brief glow of virtue before the dilemma returns, just as strongly as before.

EAST TO AMERICA: Korean-American Life Stories  
Edited by Elaine H. Kim and Eui-Young Yu  
The New Press, 386pp, \$25

## Voices from the killing fields of Los Angeles



Among the most enduring images of the Los Angeles riots in 1992 were the flickering silhouettes of armed Korean shopkeepers, raging and incoherent, against a backdrop of fire. Videotape of the catastrophe rolls endlessly in the LA Museum of Tolerance, showing looting whites, blacks, Latinos and Asians scampering like rats in the streets.

In this book's mournful collection of reminiscences, the small voices of Korean Americans caught in the eye of storm they know as *sa-i-gu* (April 29, the day the riots started) emerge fractured and sad from the debris.

Inspired by events caricatured as a revenge-taking by blacks on grasping Asian shopkeepers, the book is an attempt to represent ordinary lives "so often effaced, transmuted or covered up" by history.

Better still, for most readers, it is an illuminating introduction into an enclosed, struggling ethnic community, escaping for a toehold on America's western mainland.

The book's vigour lies in reflections on the trials and occasional triumphs colouring ordinary lives lived in extraordinary circumstances. They concern people born in Korea and brought up in the US.

Unlike the uniformly inarticulate howlings of the shopkeepers broadcast as the mobs torched their livelihoods, the voices here are varied: bitter, self-critical, resentful, reconciled.

There is K.W. Lee, for example, who describes LA's Koreatown as a "killing field" for dreams and people. He smarts at the deluded clustering together of Korean immigrants now "trapped" in a ghetto area where "the Jews were burnt out in 1965".

"We have replaced the Jews in the black American psyche. The intensity of [black] resentment and contempt... is amazing."

Koreans have failed to understand or recognise other value systems, he charges. Their aloof attitude - in street culture - amounts to nothing less than "dissing" (showing disrespect), and "dissing" is a failing which can get you killed whether you are Korean or a drug addict.

According to the book's editors, southern California's Korean merchants are still being murdered at a rate of one a month. Their vulnerability stems mainly from the shortage of economic options open to undercapitalised immigrants other than shopkeeping in poor, distressed communities.

But Mr Lee's gruff voice, not especially shocking in a community where the members are routinely fiercely critical of one another, provides more insight. Koreans, he says, are deeply afflicted by their country of origin's history of wrenching changes wrought by the cultural and territorial ambitions of Japan, China and Russia. Their past is marked by invasion, expatriation, "betrayals, frustrations, self-immolations".

The result, according to Mr Lee, is "the absence of our own value system" and an excruciating introversion. The concept of trust, for example, is confined to small, unconditionally-bonded groups.

If breached, the bonds are transformed into "a grudge that lasts for ever", he says. While such a system may have evolved as a protection against alien oppression in the past, the exclusivity of this intensity seems more of a prison in free-flowing US society.

"We share the [Judeo-Christian] work ethic, the pursuit of education and the belief in the family, but we don't share the sense of community, conscience," he says.

Looking for the roots of cultural conflict is one thing. Explaining the catastrophic consequences to Mr Dong Ewan Kim, an architecture graduate from Seoul, is

another. He runs a small store, working 14 hours a day, seven days a week. "I am scared every day. I have been beaten, cursed and spat upon... When I finish paying off my debts I hope I can go back to Korea."

Mr Kim, not yet 40, is crushed. He is one of the victims derided in a contribution from Mr Paul Kim, a police lieutenant who advises: "So what if you were a victim? Get in line there are 100,000 ahead of you."

Mr Kim is a hard man, true to his LAPD colours. He has some sympathy for devotion to hard work, but like Mr Lee, he sees "people are really living an oppressed life". Mr Kim, who tangles daily with every ethnic group, believes the oppression results from a lack of "real sympathy for other people", Korean or otherwise.

Mr Tong Sun Lim, a Christian minister, believes the trouble lies with the community's lack of experience rather than any shortage of values or self-confidence. Jews, he notes, have a 300-year history in the US; the Chinese 150 years and the Japanese 100. But Koreans have been present in discernible numbers for only 30 years. In three generations, he believes, his people will have found their place.

*Sa-i-gu* is still widely seen as just another rupture in LA's ragged social fabric. But this book hints at a far more substantial significance for the city and the future of these assiduous, ambitious newcomers on America's Pacific coast. It marks the emergence of a new articulation and a sense of common cause.

In the words of Mr K.W. Lee, the fateful day was a defining moment: "Our Warsaw, our baptism of fire... a blessing in disguise. The larger picture will emerge a generation from now. It will become an epic."

East to America is available from FT Bookshop by ringing FreeCall 8000 418 418 (UK) or +44 181 954 1251 (outside the UK). Free p&p in UK.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 8HL

## EC frustrated in earlier attempt to investigate airline alliances

From Mr Jonathan Faull

Sir, Your editorial "Squalls over the Atlantic" (July 8) considers the European Commission's investigation of transatlantic airline alliances and argues that the Commission should have asked the Council of Ministers long ago for a remit to deal with the specific competition issues involved.

The Commission did just

that, proposing in 1989 that the Council extend the regulations implementing the Treaty of Rome's competition rules to air transport within the EU to routes between the EU and foreign countries.

The Council has not adopted the necessary regulations so the Commission has fallen back on the original treaty article which provides for enforcement of the competition

rules, Article 88. It is not for want of trying to secure a better legal framework that this step, necessary for the proper implementation of competition policy, was taken.

Jonathan Faull, director, directorate-general for competition, European Commission, Brussels, Belgium

## Even bigger bite by US law on Cuba trade

From Mr Ruth Wedgwood

Sir, In his article "The long arm of American law" (July 8), Stephen Fidler laments the trouble damage lawsuits that may soon be looming in US federal courts against foreign companies trading with Cuba. Unhappy corporate counsel will wish to note another set of teeth in the American boycott legislation.

Foreign companies may be liable not only for the profit they make from a transaction (times three), but also for the entire underlying value of any

appropriated property used in any way in the transaction.

In other words, a European company's arm's-length purchase of one ton of sugar cane from a nationalised farm, or 1,000 pairs of shoes from a factory, could expose it to a recovery amounting to three times the value of the entire farm or factory.

This stems from the Helms-Burton Act's broad definition of "trafficking" in property - to include all commerce "using or otherwise benefiting from confiscated

property". Though Congress's real target may have been equity stakes, joint ventures, and management of confiscated property - see Section 301(S) - the statute's broom sweeps widely indeed.

Ruth Wedgwood, professor of law, Yale University, New Haven, Connecticut, senior fellow, Council on Foreign Relations, 58 East 88th Street, New York, NY 10021, US

## Non-existent water quality

From Mr David De Burgh

Sir, It always amuses us, living as we do on the Costa Blanca, when we read about the pressure within the UK and from the EU for water quality to be raised in the UK. Here the water "quality" is non-existent, as is the water for many days in high summer, but the tourists still flock in from northern Europe and never complain!

I have just tested our tap water today and the nitrate level is about 50 mg/litre which (according to my test kit) is double the European recommended safe limit and at or above the danger level, let alone the foul taste and smell which is present at times.

David De Burgh, Buzon T 509, Calle Costa 8, 03734 Moraira, Alicante, Spain

## Tuned in to the Internet

From Mr Adrian Damskus

Sir, It is unfortunate that Richard Vadon, when writing his piece on radio on the Internet (Media futures: "A radio Renaissance worldwide", July 8), did not consult Wolfgang München, your excellent Frankfurt correspondent.

It would have saved Mr Vadon from asserting that "Virgin is the only European radio station broadcasting live on the Net", which is not true. Bayerischer Rundfunk, one of the biggest members of Germany's Public Radio and Television (ARD), has been feeding its all-news programme, *Isaktuell*, live into the Net since October.

Anybody interested can get up-to-the-minute news from Germany in German at <http://mab.pmd.de/hr/index.html>. Our site, technically supported by GMD, Germany's Society for Mathematics and Data

Processing, allows the user to download the required Streamworks player software, which we chose over RealAudio because Streamworks provides for CD-like reception if the Internet connection is established with ISDN bandwidth. Apart from that, our experience over the past year bears out the assessment of Howard Freeman, quoted in Mr Vadon's article, that Net users are information-driven and therefore flock to sites that provide pure information (like ours does). That said, let me finish by adding that, for me, Media Futures is a must-read every Monday.

Adrian Damskus, Bayerischer Rundfunk Online Task Force, Rundfunkplatz 1, 80335 Munich, Germany

## Economically represented

From Dr Eamonn Butler

Sir, As Murray Rothbard in his denied the holocaust, now his posthumous book denies the importance of Adam Smith to economics. The surprise is Michael Prowse ("Deterring Adam", July 8) gives it so much space. To say that Smith's labour theory of value enabled Marx to concoct his silly "exploitation" ideas is indeed unoriginal. To blast his support of bank regulation or income tax as "bribing interventionism" says more about Rothbard than Smith.

Smith's bold critique of trade restraints made possible the 19th-century era of liberal economics and rising prosperity. His "invisible hand" theme illustrated how societies could evolve in harmony and co-operation without the need for interventionist planning. Yet Smith's path-breaking social analysis does not feature in Rothbard's book. Smith turned economics from metaphysical musings into an empirical science. In so doing, he rejected some promising but speculative theories by earlier economists. Rothbard morns these losses but in fact it was the empirical method he hated. Smith made mistakes, but wilful misrepresentation of his subject was not one of them.

Eamonn Butler, director, Adam Smith Institute, 23 Great Smith Street, London SW1P 3BL, UK

## Service adrift

From Mr A. Kevin Parkin

Sir, With cross-channel services which run 24 hours a day apparently suffering cut-throat competition and involved in high-cost advertising campaigns in the press, I recently tried to book a crossing at 11pm.

All the companies had either answering machines or did not answer.

A. Kevin Parkin, 4 Oak Creek, Bawtry Road, Doncaster DN4 7PJ, UK

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July 10 1996



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday July 11 1996

## Jobs for the boys

Flags are waving in the valleys of south Wales and in South Korea for the generosity of British taxpayers. They gave the dowry for a marriage of eastern capitalism and Welsh labour in Newport, a former steel town suffering sadly from unemployment.

The industrial conglomerate, LG, is to invest £1.7bn in an electronics plant, expected to provide more than 6,000 jobs. But the price has been high. The total subsidy, believed to be about £300m, represents a cost of £30,000 per job, far the highest for any such project in the UK and perhaps twice the amount that would have been considered reasonable until recently.

In one sense LG has scooped the pool. The financial inducement which it is being given is nearly equal to the total subsidy dispensed by the UK last year (to April 1996) under Regional Selective Assistance, when 477 inward investment projects were agreed.

Most of the foreign companies setting up in the UK came without being offered wads of handout. The country's remarkable success in attracting inward investment - 1,350 projects, providing 285,000 jobs in the last three years - depends more on solid attractions than cash in the hand.

A recent study by the Institut der Deutschen Wirtschaft suggested that the ratio of profit to labour costs for new projects was higher in the UK than in any

other developed country. It was 11 times higher than in Germany itself and 2½ times better than in the US. It is not surprising, therefore, that German companies are jostling to invest in the UK (£8 new projects last year).

With such advantages, why does the UK need to pay so much to the Koreans? One answer is that the countries of Europe are engaged in an increasingly competitive subsidy race, from which all will ultimately lose. In the UK, the regional development authorities are competing against each other with similarly self-defeating results, despite a recent rebuke from the Treasury.

The fundamental difficulty in the UK, as in the EU, is that the rules governing state subsidies are chaotic; they derive from many quite unconnected schemes, from which ingenious agencies could in theory put together subsidies worth three-quarters of a project's total cost.

Consequently politicians have to judge whether each handout represents a sensible trade-off or just jobs for the boys, a secretive choice in which any minister is likely to be fallible. The remedy is much more detailed public guidance from the Treasury, for example on what is a reasonable "cost per job", and less secrecy about the analysis of costs and expected benefits. Above all, there needs to be reform of EU rules on state handouts to make the practice fair to all members, fairer to taxpayers and fair to the companies which do not get them.

## Heavenly peace

Beijing and Washington have decided, belatedly, to patch up their squabbles of recent months. The visit to China by Mr Anthony Lake, President Clinton's national security adviser, has produced general agreement to swap summit meetings next year. Even without any commitment to a firm date or location, that is a transformation from the bickering of the past year. It is certainly to be welcomed.

Clearly both sides wanted to improve the atmosphere, and no doubt for their own political reasons. Beijing gave Mr Lake a five-star welcome, including talks with both President Jiang Zemin and Premier Li Peng, when it could have easily trotted out no more than a deputy foreign minister. As for Washington, it is clear the US administration has been involved in a serious reassessment of its relationship with the Chinese leadership, and has decided that it cannot be allowed to stagger from one obstacle to the next.

It is becoming increasingly clear that the most important international relationship in the first decades of the next century will be that between China and the US. But so far, neither side has worked out a reliable framework in which it can be handled. Instead, they have allowed a series of disagreements to escalate into potentially destabilising disputes.

First the Chinese became incensed over the private visit of Taiwan's President Lee Teng-hui

to the US, and suspended talks in a series of bilateral committees. Then China's aggressive war games in the run-up to the Taiwanese elections prompted Washington to dispatch two aircraft carriers to the Taiwan Straits. And twice this year, the US has come close to imposing trade sanctions, for alleged sales of nuclear technology to Pakistan, and for Beijing's failure to clamp down on piracy of US intellectual property.

Those disputes are now out of the way, and the US Congress has approved a renewal of most favoured nation trading status for its partner, by a comfortable majority. Hence the present opportunity to make amends.

The worrying thing for the rest of the world is that there will be a host of similar hiccups in the bilateral relationship in the months and years to come. Taiwan is a permanent source of friction, and will remain so until its status is finally resolved. The return of Hong Kong to Chinese sovereignty next year will also, almost certainly, produce new causes for confrontation, whether over human rights, or merely aviation rights for Taiwan.

Next year's summit must be used by both Beijing and Washington to create a reliable framework within which they can resolve and contain such disputes. A relationship so critical for the maintenance of world peace and stability cannot be allowed to stumble from one disagreement to the next.

## Minimum wage

The almost certain passage into law of the bill to raise the US minimum wage from \$4.25 (\$2.70) to \$5.15 is a politically significant event. The ability of the Democrats to pass the increase through a Republican-controlled legislature suggests politics is swinging leftwards. But the extent of that swing should not be overstated. It is still more important not to exaggerate the economic impact, for good or ill, of this rise.

Since the minimum wage is one of the totemic legacies of Franklin Delano Roosevelt's New Deal, the passage of this legislation is a welcome triumph for the Democrats. President Clinton is shining brightly in the opinion polls. Mr Newt Gingrich, architect of the Republican victory, is in eclipse. Now congressional Democrats can point with pride to their success in mandating higher wages for 10m low-paid workers.

Such triumphalism should be kept firmly in check. The minimum wage has been raised 18 times since it was first introduced, most recently in 1991. It is also - and will remain, after the increase - a largely symbolic gesture.

The reason is that its level is so low. The new minimum wage will directly affect only some 6 per cent of US workers. While its sterling equivalent is a mere £3.30 an hour, a minimum wage that bore the same relation to average UK incomes as the new US minimum wage does to average US incomes would be just £2.30 per hour. It

says a great deal about the degree of wage inequality in the US that 6 per cent of its workers will be directly affected by such a low minimum. In the UK, the proportion would be far smaller: in fact, the proportion of full-time UK workers earning below £2.30 an hour is less than 1 per cent.

That the impact of the proposed minimum wage on labour costs will be so small does not make it a good idea. It merely means its adverse effects on the flexibility of the US labour market will be minimal. A minimum wage is a hypothecated tax on employers whose revenue is transferred directly to employees. Notwithstanding controversial suggestions to the contrary, such a tax is likely to have some adverse effect on employment.

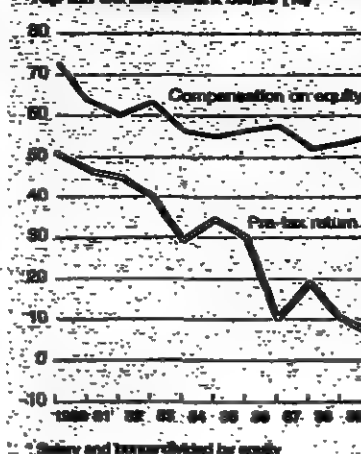
More important, it is an ineffective way of helping the poor. A large proportion of those earning low wages are youngsters living with parents and part-time workers in two-earner households. If the goal is to reduce poverty or flatten an increasingly unequal income distribution, a more efficient policy is to target cash subsidies, via the tax and benefit system, on genuinely poor families.

The minimum wage is either tokenism or likely to damage employment. In the US, it is almost entirely the former. If they wish to make a real difference, left-of-centre politicians should be pushing for frankly redistributive fiscal policies, instead.

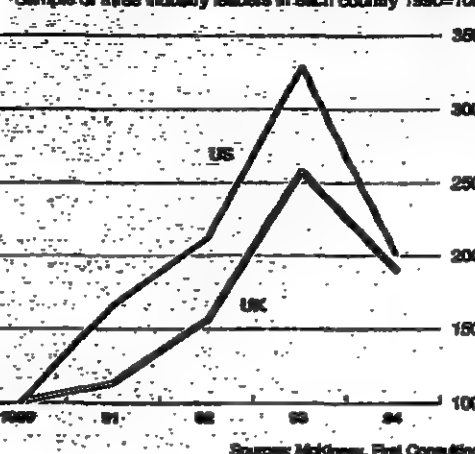


## European investment banks: struggling to be global

Reference to employees and shareholders  
Top ten US investment banks (1994)



Sample of three industry leaders in each country 1990-1994



Investment bank ratings for different products 1995

Bank	Bookrunners International equity issues	Global M&A advisers	Bookrunners Euro & global bonds	US bond trading	Equity research
Goldman Sachs	1	2	3	5	6
SBG Warburg	2	10	4	Below 10	1
Morgan Stanley	3	1	7	8	10
Merrill Lynch	4	8	1	1	Below 10
Dresdner Bank/Industrielle Bank	5	Below 10	Below 10	Below 10	7
Paribas	6	Below 10	Below 10	Below 10	Below 10
GS First Boston	7	9	2	4	Below 10
UBS/P&D	8	Below 10	Below 10	Below 10	8
Lehman Brothers	9	7	5	2	Below 10
BZW	10	Below 10	Below 10	Below 10	3

## Rush for the big league

John Gapper on the strengths and weaknesses of European investment banks competing for a place among the global market leaders

European investment banks are being transformed. Little over a year since Barings' collapse caused a shake-out in the City of London, the largest have grown in size and ambition. Some now compete to join elite US investment banks such as Goldman Sachs at the top table of global institutions.

Few months have passed since the start of 1995 without one of these new contenders announcing a step in its growth. Some large banks, such as Dresdner Bank, have bought merchant banks such as Kleinwort Benson, while others like Deutsche Bank have tried to hire the best talent from market leaders.

Last week's announcement by the Credit Suisse group that it intended to merge its investment and corporate banking arms into a single body called Credit Suisse First Boston was another form of growth. In this case, it involved putting together existing operations so they could work more effectively.

On paper, it created a stroke of a body that will challenge global investment banks such as Morgan Stanley and Salomon Brothers in terms of equity capital and employment. It is trying to put behind a decade of performing at less than its best because of internal tensions between staff in different divisions.

As these levitans have been born, they have sent waves of disruption through the industry. Deutsche Morgan Grenfell, the institution created by merging a British merchant bank and the investment banking part of Deutsche Bank, has caused anger by poaching bankers with million-dollar bonuses.

Waves have also been felt on Wall Street. The long-awaited reform of Glass-Steagall, the US law separating investment and commercial banks, has not yet happened. But European banks have already accelerated their push into the US by hiring staff and buying firms.

For example, NatWest Markets, the investment banking arm of National Westminster Bank of the

UK, last year paid £136m to buy a small mergers and acquisitions firm run by Mr Eric Glascher, a former star at Kidder Peabody, the Wall Street broker. More recently it bought Greenwich Capital Holdings, a broker of US government bonds, for £250m to reinforce its fixed income side.

Meanwhile, Union Bank of Switzerland, an early entrant into London investment banking when it bought the stockbroker Phillips & Drew in the mid-1980s, has hired corporate financiers, equity analysts and bond traders on Wall Street. These include Mr John Costas, head of US bonds at Credit Suisse First Boston.

These banks argue that only by having a strong presence in the US domestic market can they rival a firm such as Goldman Sachs. "Once you have cracked the US, you are on your way. If you have not, there is a lot of pain ahead," says Mr Martin Owen, chief executive of NatWest Markets.

The motives behind this rush towards the big league are clear. Some European banks have no choice but to seek alternatives to their traditional operations. Margins on plain lending to large companies are now water-thin, while retail banking for small businesses and individuals is barely profitable in some European markets, particularly Switzerland.

Although investment banking earnings are volatile, 1995 has been extremely profitable. Markets have risen and there has been a wave of mergers, acquisitions and equity issues. "This is a buoyant time in many ways," says Mr Maurice Thompson, head of investment banking at Deutsche Morgan Grenfell.

Many believe this is one of the last chances to make it as a global investment bank. Perhaps a dozen banks are competing to achieve this, and the consensus is that four or five at most will succeed. Some bankers fear that if they miss opportunities for growth now, they will never be one of the leaders.

European banks have advantages in aiming for the top. The biggest one is financial muscle. This is partly a matter of capital. One of the main reasons for the CSFB restructuring was the wish to put the strength of Credit Suisse's balance sheet behind the investment bank's expertise in underwriting and proprietary trading.

Mr Richard Brance, global head of fixed income for UBS, says a strong balance sheet gives banks an edge when companies want to raise cash by issuing bonds or shares. "We can put capital at a company's disposal immediately. That gives us more cards in our pack," he says.

The prospect that scares some US firms most is the sheer stamina of an institution such as Deutsche Bank which has enormous cashflow and traditionally undemanding shareholders. Few believe it will give up easily even if Deutsche Morgan Grenfell produces inadequate returns over several years. One senior director of a US bank says it now faces economically irrational competition.

Yet the elite US investment banks have many advantages that will be difficult to overcome. They offer a large range of services, from secondary trading of bonds to printing capital at risk to buy and sell investment portfolios for investors, and advising company chairman on potential mergers.

Furthermore, US investment banks have the natural advantage of roots in the world's largest and most innovative capital market. Goldman Sachs or Merrill Lynch have used the earnings flow from profitable US operations to diversify into Europe.

European commercial banks have found it relatively easy to build bond-trading desks that can compete on price with a big US firm. It has been more difficult to break into the prized businesses that depend on long-term relationships and trust, notably the mergers and acquisitions advisory side.

One problem is that as competition drives down margins in the forms of investment banking that are easier to enter, it becomes more essential to sell a lot of services to each customer. An investment bank is most profitable when it is hired to execute complex deals and financial restructurings.

This creates a problem for several of the new entrants. How can they create an institution that not only looks powerful on paper, but makes money? "You can build revenue easily enough, but making a profit is a different matter," says Mr Simon Robertson, chairman of Kleinwort Benson.

The challenges of establishing sustainable profits is already hard for the long-established US firms. A global study by McKinsey, the consultancy firm, found return on equity among the top 10 US investment banks has fallen steadily in the past 15 years, while pay and bonuses have remained high.

It will be harder still for their European competitors, which lack the established culture of firms like Goldman Sachs. One director of a European bank says his rivals are unlikely to succeed simply by hiring the best talent from US rivals because they are working against their own interests.

By hiring a collection of stars in bond or equity trading, or corporate finance, and rewarding them for their expertise in their own areas, European banks are creating divided, unstable firms. "The bonus system is at cross-purposes with what is good for the firm as a whole," says Mr Thompson, of Deutsche Morgan Grenfell, usually cited by rivals as relying on hired guns, says this criticism is over-blown. He says that the 200 new recruits comprise a small proportion of the 7,000 staff there. "The most important thing is to win business. Momentum creates a culture quite quickly," he says.

Momentum is what the European investment banks seek above all. The more optimistic believe the potential market for an investment bank that can provide services in

Europe, America and Asia is growing because of long-term trends such as the move towards private investment and liberal markets.

Others are less sanguine about the competitive climate facing the new aspirants. "This is a mature business and it will carry on consolidating. It was given a new lease of life during the 1980s by financial liberalisation but that will only be a bubble," says a director of a European bank.

This is a worrying prospect for those that fail to take their place alongside the US elite. As competition has grown among brokers and traders in bond and equity markets, those outside the top five in any market may make marginal profits at best.

This could leave several banks which are now building their operations with an expensive network that does not have enough business to support it. Some investment banks are wary of being caught in this way. "There are advantages to being a tortoise, not a hare," says Mr Robertson of Kleinwort Benson.

The gloomiest observers argue the entire notion of becoming a global investment bank is flawed. Ms Claire Goussault, a director of First Consulting, a consultancy that has studied several large investment banks, says that it may be impossible for any of them to achieve their target.

She says investment banks have traditionally relied on being creative and swift to react to changes in markets. This involves talents that are crushed in big organisations. "In an economic sense, it does not make much sense to try to become a global commercial and investment bank," she says.

Most European bankers are unwilling to accept such a gloomy view of their prospects. Yet many recognise that they are now in what could be a prolonged and tough battle from which only a few at most will emerge victorious. The best justification for many is that they have little choice but to try.

## OBSERVER

## Make it happen

The world has become a place of media moguls' plans for grand alliances, whether to launch 200 channels of digital television, or to build the odd electronic superhighway. Eggs have a way of clashing almost before the ink has dried on the deal.

But the latest proposed pact between British Sky Broadcasting, the UK satellite venture, and the German digital satellite project which will launch later this month, their bosses, Rupert Murdoch and Leo Kirch, get on too.

Both Chisholm and Zueck have little patience for grand talk about strategic alliances. Both say, almost in the same breath, they are interested simply in "doing it".

Which is why the BSkyB-Kirch strategic alliance might actually endure. And why Barthelemy, the German media giant, may come to regret fulfilling his proposed alliance with Murdoch.

## All at sea

"I am a passionate admirer, as I am told you are, of Patrick O'Brien's novels." As a way to kick off a letter it takes some beating, particularly if the recipient has never heard of Patrick O'Brien, as was the case with one of Observer's colleagues.

Max Hastings, editor of the London Evening Standard and author of the letter, goes on to issue an invitation to dinner - out to sea - with the said author. "Rather than saying anything publicly, I am simply writing privately to ask some of Patrick's fans whom I can identify whether they would like to come." Well now it's public, Mr Hastings. Perhaps some genuine O'Brien fans - he writes Napoleonic seafaring yarns - will be in touch.

Dear reject  
Minister of the effect that rejection letters may have on unsuccessful applicants, caring companies try to soften the blow. It may make more hard-headed sense, too, as today's reject may be tomorrow's valuable business contact or may be a customer.

Sadly, however, good intentions are so easily undermined. One applicant for a job at a financial house opened up a "No" letter to find warm reassurances. The rejection "should not be taken as a reflection on your skills and experience", it insisted, explaining that the number and quality of applicants had been exceptional. A nice touch was the personal signature. But then he noticed the

company letter reference - Ref.

## Bullish Merrill

When Merrill Lynch was bullish about America it flogged its emblematic bull for all it was worth. In its second advertising campaign, the bank was put out to buy and sell investment portfolios for investors, and advising company chairman on potential mergers.

Furthermore, US investment banks have the natural advantage of roots in the world's largest and most innovative capital market. Goldman Sachs or Merrill Lynch have used the earnings flow from profitable US operations to diversify into Europe.

## Lion taming

So much for bulls. Latest addition to the business world's animal clan is actually the South African lion, its minister of trade and industry, Alex Borwin, tells the C&I's Invest in South Africa

conference in London.

He goes on to offer an unusual encouragement for potential British investors: "Come and ride the lion - don't let it eat you."

One old lion doing the rounds is Cyril Ramaphosa, recently retired secretary-general of the ANC. The former labour leader is now deputy chairman of New Africa Investments, the first black-controlled company listed on the Johannesburg bourse.

We are told the company "constitutes the successful meeting of minds between black endeavour and enlightened established economic interest". Asked which cap he's wearing here - political or business - he hesitates before replying, with a hearty guffaw, "Both." Lion tamers might hope for a less equivocal answer.

## Beyond our Ken

As Britain flies Nelson Mandela, Ken Livingstone, former leader of the now defunct Greater London Council, might be permitted a wry smile about the fuss 11 years ago when an eight-foot bronze of the former Robben Island inmate was erected outside London's Royal Festival Hall. Typical GLC extravagance, sections of the establishment harrumphed - what business have they spending tax payers' money celebrating such a life? Livingstone must be laughing like the news he famously collects.

## Financial Times

## 100 years ago

The United States Election  
The Democratic Convention was a scene of great excitement and disorder after four hours devoted to speeches and the nomination of candidates. The demonstrations over the names of Bland, Boies and Bryan rivalled one another in intensity and fervour. A young woman dressed in white led the demonstration in favour of Mr Boies from a front seat in the gallery, where she waved a banner. She was conducted by excited delegates to the platform, and thence was almost carried to the Iowa delegation, waving her banner until almost exhausted. At the fifth ballot Mr Bryan obtained the requisite number of votes, and was accordingly nominated as the Democratic candidate for the presidency.

## 50 years ago

China To-day  
Life in Shanghai is vastly different from the old days. Shortly after the defeat of the Japanese, Shanghai was a cheap place to stay in. At the same time Kiuming was the most expensive place in China. Kiuming is now about the cheapest place in China and Shanghai probably the most expensive in the world. The cost of living is 4,000 times that in 1936, but the number of Chinese dollars to the pound is only 500 times greater.











## COMPANIES AND FINANCE: EUROPE

## CLF and CCB to become joint operation

By Andrew Jack in Paris

Credit Local de France and Crédit Communal de Belgique, two of the world's most important lenders to local authorities, yesterday approved the creation of a joint Franco-Belgian group with combined assets of FF1,000bn (\$194bn). The move is designed to help them respond to intensifying competition in the European banking sector.

Under the proposal, CCB, which is owned by its 600 Belgian local authority clients, will float 30 per cent of its capital on the domestic stock mar-

ket, and the two groups will acquire a 50 per cent stake in each other and be run by a joint management team.

Shareholders still have to approve the accord at extraordinary general meetings in October before formal implementation by the end of the year, but senior executives in the two banks have already agreed to obtain mutual approval before all significant future decisions.

Mr Pierre Richard, chairman of CLF, described the structure as an economic merger, although in the short-term the groups remain legally distinct,

with two new holding companies created to own the cross-shareholdings in each of the two operational banks.

He stressed that the proposal marked a "marriage of equals", which would be governed by a common set of executives and two chairmen - himself and Mr François Narmon, head of CCB. There would also be a significant number of non-executive directors.

He said that by removing the barrier of foreign exchange risks, the development of the single European currency would lead to more concentration within the EU and expand

the lending activities of banks. "The first companies to anticipate this movement will have a definite advantage."

The action comes at a time of growing pressure on banks in both France and Belgium, where there have been heated debates over the past few months about the need for mergers or international alliances in order to survive.

Mr Richard said the alliance would increase the two banks' "financial clout" - improving fundraising powers, scope for joint acquisitions and solvency ratios.

However, he stressed there

was little duplication between the two institutions, so they would be able to achieve economies of scale without the need for job losses.

To compensate for its larger size, CLF will pay an extraordinary dividend to shareholders of FF162bn before the merger. The structure is being set up to ensure that French and Belgian investors in the respective holding companies receive approximately the same dividend payments despite significant differences in tax regimes between the two countries.

CCB has been associated with CLF since 1990.

## Marianne and Jeff claim marriage of lending equals

The specialist bank Crédit Local de France has long been courted in a manner appropriate to its corporate logo - an image of the youthful maiden Marianne who serves as the historic symbol of Republican France.

It took five years of gentle wooing and apparently dashed hopes before yesterday's detailed announcement of a proposed merger with its counterpart Crédit Communal de Belgique, which has as its logo - dubbed Jeff - the helmeted head of a "communier", or medieval watchman.

It was not a step taken lightly. For Mr Pierre Richard, chairman of Crédit Local de France, a forced marriage, a union of convenience or one undertaken without conviction just would not work. There had to be a real "communion".

Speaking in his Paris office yesterday, Mr Richard admitted he welcomed the advances

of the Belgian bank. The two institutions had long worked together, since CCB took a 5 per cent stake in CLF when it was partially privatised in 1990.

He stressed he had always got on very well with his opposite number, Mr François Narmon, and found the Belgians easy to work with.

But it was more than mere social compatibility and personal qualities which explain the link-up between the two groups. CCB approached CLF at the end of last year, at a time of a growing debate in Belgium over the future of the country's banks as competition in the sector intensified across Europe.

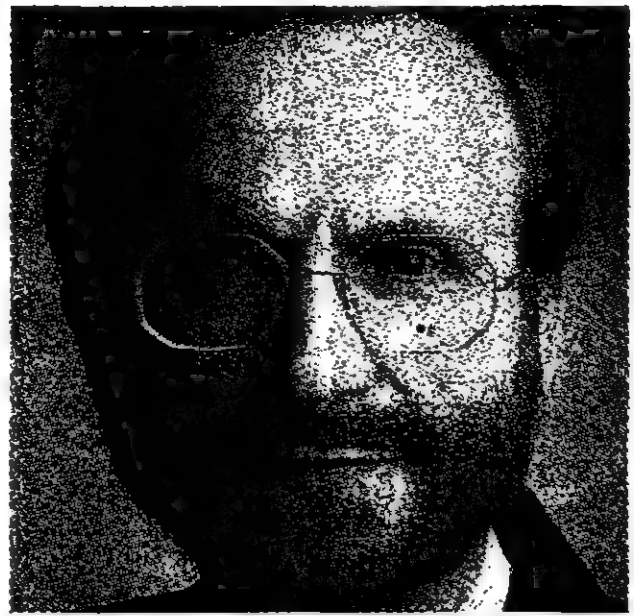
Mr Richard highlights the importance of the single European currency, which he both advocates and believes will be implemented. "The Euro will be a serious handicap for those who are not

ready, but a force for change for those who are active," he says. "It is a stimulus for us."

He argues that there will be a strong competitive advantage for those groups which are among the first to anticipate the trends towards concentration in Europe and accordingly expand their lending activities across the continent.

Rather than tying up with other domestic institutions, CCB decided to turn to CLF, attracted by the ways in which the groups complemented each other. Both concentrate on lending to local authorities and public sector projects, and there is little overlap in the geographical regions they serve.

Together, the two banks claim they will be among the largest 20 in Europe, with total assets of FF1,000bn (\$194bn) and the largest lenders in their niche



Pierre Richard: Euro offers big advantage for expanding lenders

around the world. Mr Richard proudly claims the lack of duplication will result in no job losses - a factor which helps explain why his works council approved the merger on Tuesday.

He stresses instead the scope for growth - stressing that "France is not enough" and highlighting the prospect of expansion, first to complete its European network by developing a presence in Italy, and then to strengthen its role in North and South America and south east Asia.

Within the next four or five years, some senior executives believe there will be a single entity quoted in several markets which completely merges CLF and CCB.

In the short-term, the structure of the "alliance" is more tortuous.

In the absence of a European-wide legal statute for a cross-border entity, they have chosen for the moment at least to operate with one quoted holding company in each country, each with a 50 per cent stake in the two operational businesses, which will contain the existing activities of the two banks.

There will be identical boards for the two holding companies, and for the two operational businesses, with a common co-ordination committee and the two existing heads as joint chairmen. "It is an equal marriage," stresses Mr Richard.

A question now for analysts is whether the pressures in European banking will give birth to other cross-border liaisons.

Andrew Jack

## Mannesmann wins 49.8% holding in telecoms network

By Michael Lindemann in Bonn

Mannesmann, the German mobile phones to tanks conglomerate, yesterday emerged as the surprise winner of a 49.8 per cent stake in DBK, the telecoms network of Germany's railway system. The deal makes it the strongest potential competitor to challenge Deutsche Telekom, the state-owned operator, when the German telecoms market is liberalised in 1998.

A final decision was made by the management board of Deutsche Bahn, the federal railway system, yesterday morning and was greeted with astonishment by executives in the German telecoms industry, including at Mannesmann itself.

Thyssen, the steel and engineering group which had been vying for the DBK stake, said it was "surprised" by the decision and pointed out that its negotiations with Deutsche Bahn had progressed considerably further than those between DB and Mannesmann. "We were a good deal nearer a final agreement than our competitors," an executive said.

Other executives close to the talks said Thyssen had made more headway but that Mr Heinz Dürr, Deutsche Bahn chief executive, and Mr Joachim Funk, who heads Mannesmann, had talked frequently in recent days.

Shares in Mannesmann rose DM13.70 to close at DM15.30 while Thyssen's stock fell DM13.20 to close at DM12.30.

Executives at DB and Mannesmann refused to disclose the price paid for the 49.8 per cent stake in DBK but analysts said that bids had been increased at the last minute.

DB said the price for the stake had been one of several criteria which the company had used to make its decision. Other deciding factors included what national and international telecoms connections a potential partner offered and the strength of existing telecoms activities.

Mannesmann had the upper hand, a DB spokeswoman said, because of its partnership with Unisource, the international five-way telecoms venture which includes AT&T, the largest telecoms operator.

Mannesmann's chances were also improved because of its D2 mobile phone network, the only nationwide digital mobile network alongside that operated by Deutsche Telekom.

"Given Mannesmann's existing activities, DBK can make its entry into the market more quickly," DB said.

Mannesmann said DB's decision marked an "important step" towards a final agreement between the two companies. But it stressed that "negotiations and contracts have not been completed".

## Swiss power groups in telecoms venture

By William Hall in Zurich

Six of Switzerland's biggest regional electricity companies are setting up a telecoms company to challenge the dominance of Swiss Telecom after the Swiss telecommunications market is deregulated in 1998.

The venture - to be known as DIAx - will be jointly owned, and is seeking a big international telecoms company as a partner.

The Swiss telecoms market is worth about SF10bn (\$7.9bn) a year and is one of the most profitable.

Although Switzerland is not part of the European Union it has committed itself to following the EU timetable for the complete opening of all telecommunications services to competition and the elimination of network monopolies.

The Swiss electricity industry already has an extensive communications structure which is used primarily for operating power supply installations. Its fibre optic and microwave transmission networks will form the basic platform for DIAx, which plans to supply telephone services as well as ISDN and Internet connections, mobile phones, data transfer and computer networks.

The six companies involved are: Aare-Tessin Electricity, BKW FMB Energy, Central-Schweizerische Kraftwerke, Elektrizitätsgesellschaft Lauscher, L'Énergie de l'Ouest-Suisse and Nordostschweizerische Kraftwerke. They are contributing an initial capital of SF100m and are seeking other partners in the electricity industry to join the venture.

## Purchases boost Gränges refocusing

By Greg McIvor in Stockholm

Gränges, the aluminium subsidiary of Electrolux, the Swedish white goods manufacturer, has acquired two aluminium companies in the UK and Belgium and is setting up a joint venture in China.

The moves reflect Gränges' drive to concentrate on core aluminium operations after the postponement of its planned stock market flotation last year. It said annual sales would rise SKr1.2bn (\$852m), helping to offset the negative impact on turnover of lower metal prices this year.

The transactions included the purchase of Bredon Group, a Cheltenham-based aluminium extrusion and systems company, and Phenix Aluminium, a foil maker near Liège. Details were not released.

Mr Lars Westerberg, Gränges chief executive, said further foreign investments were likely as part of a strategy to make the unit "deeper but slimmer", with a clear focus on aluminium production.

The initiative is likely to appeal to investors, whose coolness to last year's flotation resulted partly from a perceived lack of focus in Gränges' operations.

Gränges, which sold a distribution division last December in the first stage of the refocusing drive, continues to be seen by Electrolux as a non-core asset. However, Mr Westerberg insisted yesterday's moves were unrelated to any eventual flotation, and the matter remained dormant.

Gränges said the acquisition of Bredon would double its share of the UK aluminium extrusions market to about 23 per cent, making it Europe's second-biggest producer after Norsk Hydro, the Norwegian group. The purchase of Phenix would make it number two in the European thin foil market.

The Chinese joint venture, to

## NEWS DIGEST

## First Austrian snubs Creditanstalt plan

Plans to privatise Creditanstalt, the Austrian bank, through a link-up with First Austrian Savings Bank collapsed yesterday when First Austrian's supervisory board rejected the merger model put forward by its consortium partners. First Austrian insisted it would put only 75 per cent of its shares into the planned holding group. Under this plan, the foundation that controls the bank would keep a 25 per cent minority stake in First Austrian and would also be the largest shareholder in the holding group.

First Austrian's consortium partners, however, demanded that the holding group include all shares of First Austrian and Creditanstalt. This would prevent the First Austrian foundation from having undue influence over the new banking group, which would be Austria's largest, and would allow a much closer co-operation between the two banks.

The consortium was set up two years ago to acquire a 70 per cent voting stake from the government. It is led by Generali, the Italian insurer, and also includes Commerzbank of Germany and Banca Commerciale di Italy. Banking experts say they expect First Austrian to pull out of the consortium, which would then have to prepare a new bid.

The government is hoping to net Schifano (\$1.4bn) for its stake in the second largest bank, but has no other concrete offers at hand. The Creditanstalt privatisation has dragged on for more than five years and has become an embarrassment to the Austrian government.

Eric Frey, Vienna

## Skoda Pilsen slips into red

Skoda Pilsen, the Czech heavy engineering group, said yesterday it would post a pre-tax loss of Kč165m (\$6m) for 1995 after its auditor advised setting aside substantial sums against unpaid receivables. The loss follows pre-tax profits of Kč450m in 1994. Skoda has agreed to a recommendation by its auditor, Ernst & Young, to set aside Kč442m for uncollected receivables, investments and inventories, and Kč108m for debt write-offs. It said the write-offs were an attempt to get to grips with "the unhappy heritage of the past". That heritage is thought to include up to Kč4bn it is owed by customers throughout the former eastern bloc which are unable to pay their debts.

Total sales in 1995 jumped 56 per cent to Kč27bn from Kč16bn a year earlier, and Skoda predicted they would reach Kč38bn this year. A far-flung conglomerate with interests ranging from turbines to locomotives and trucks, Skoda is viewed with caution by analysts and investors. It has extracted little investor interest because of wariness about the transparency of its accounts.

Vincent Boland, Prague

## Astra goes to EC over Losac

Astra, the Swedish pharmaceuticals group, has lodged a complaint with the European Commission against Portugal for approving 13 "pirate copies" of its blockbuster anti-ulcer agent Losac. Astra, for whom Losac is set to become the world's biggest-selling drug later this year, accuses Portugal's medical authorities of approving replicas of the drug based on alleged exact copies of Astra's own registration documentation.

Astra claimed Portugal's pharmacy and medicines institute, Infarmed, had violated domestic law and a European directive on drug registrations. The majority of the applications, largely by local pharmaceutical companies - were based on "falsified" versions of Astra's documents, it said. Some of the drugs in question did not correspond with registration documents, but Infarmed had so far declined to revoke any licences.

Astra, which has a 50 per cent market share in Portugal, estimates it is losing \$12m a year to Losac imitations. It initiated court action in Lisbon two years ago, but now believes the EC can resolve the matter more speedily.

Greg McIvor, Stockholm

## Viag to bid for MBT

Viag, the German industrial conglomerate, yesterday confirmed it was bidding for Master Builders Technology, the building chemicals company which Sandoz, the Swiss chemicals group, is selling as a result of its fusion with Ciba-Geigy. Press reports have suggested Viag would bid up to DM1.4bn (\$918m) for MBT but Mr Georg Obermeyer, chief executive, yesterday told Viag's annual meeting in Munich the price for MBT still had to be finalised. "Our idea of a price for this company has clear limits," Mr Obermeyer said. "We cannot pay every price."

If successful, Viag would merge MBT's operations with its own chemicals subsidiary, SKW Trostberg, creating Europe's largest building chemicals group. Michael Lindemann, Bonn

## Fokker awaits Yakovlev offer

Receivers at Fokker, the Dutch aircraft maker which collapsed in March, were yesterday cautiously awaiting a renewed approach from Yakovlev, the Russian aerospace group which was among a number of prospective purchasers in earlier talks to rescue the group. Mr Arkady Gurkov, Yakovlev vice-president, told Reuters in Moscow that the company was preparing a F1370m (\$207m) offer, which it would fund through western bank credits backed by the Russian government.

"We seriously intend to buy Fokker before the end of this year," he was quoted as saying, while adding that several bureaucratic hurdles had to be resolved. The deal would involve relocating components assembly conducted in Germany and Northern Ireland. The indicative offer is pitched at the same level as one discussed in April, but the receivers had not replied to conditions they laid down at the time. Since then, Fokker's maintenance unit has been sold to Stork, a Dutch industrial group.

Gordon Crabb, Amsterdam

Renault and PSA Peugeot Citroën, the two big French carmakers, yesterday unveiled a new V6 engine they have developed for mid-range and luxury car models. The engine, which required an industrial investment of FF1.5bn (\$282m) split equally between the two groups, will be produced by Française de Mécanique, their jointly controlled manufacturing company, at its plant in the Pas-de-Calais region. It will go on sale this autumn and could eventually be sold to other manufacturers.

David Owen, Paris

Thyssen Stahl, the German steelmaker, has formed a joint venture with Italy's Stola Group through a new company, Eurosteel of Turin, in which each will have a 50 per cent stake. The venture will produce pre-cut steel plates used in vehicle manufacturing.

Reuter, Duisburg

Ferrovie dello Stato, the Italian state railway company, is interested in selling its 2.88 per cent stake in Istituto Bancario San Paolo di Torino but no decision has yet been taken, FS managing director Lorenzo Necchi said.

Reuter, Milan

All of these securities having been sold, this advertisement appears as a matter of record only.

8,165,000 Shares



Magna International Inc.

Class A Subordinate Voting Shares

1,380,000 Shares

This portion of the offering was offered outside the United States and Canada by the undersigned.

Goldman Sachs International

Prudential-Bache Securities

Schroders

BMO Nesbitt Burns International Ltd.

Richardson Greenshields of Canada (U.K.) Limited

Deutsche Morgan Grenfell

Investmentbank Austria

SBC Warburg

6,785,000 Shares

This portion of the offering was offered in the United States and Canada by the undersigned.

Goldman, Sachs &amp; Co.

Prudential Securities Incorporated

Schroder Wertheim &amp; Co.

Nesbitt Burns Inc.

Richardson Greenshields of Canada Limited

Deutsche Morgan Grenfell

Merrill Lynch &amp; Co.

Morgan Stanley &amp; Co.

Salomon Brothers Inc.

Bunting Warburg Inc.

CIBC Wood Gundy Securities Inc.

Robert W. Baird &amp; Co.

First Marathon Securities Limited

Gordon Capital, Inc.

Edward D. Jones &amp; Co.

Levesque Beaubien Geoffrion Inc.

Loewen, Ondaatje, McCutcheon Limited

Midland Walwyn Capital Inc.

July 1996

Handwritten signature: J. A. J. 1350



دعوى من الإيجل

# A Strong First Half in 1996 for Global Equities.

<p>Country: United States Sector: Metals June 1996 U.S. \$338,500,000 <b>Titanium Metals Corporation</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Financial May 1996 U.S. \$574,425,000 <b>Berkshire Hathaway Inc.</b> Class B Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Oil &amp; Gas May 1996 U.S. \$370,514,645 <b>Diamond Offshore Drilling, Inc.</b> Common Stock The Selling Stockholders were Alpine S.A. and Forwelling AB Status Co-lead Manager: Salomon Brothers</p>	<p>Country: The Netherlands, France Sector: Oil May 1996 U.S. \$72,000,000 <b>Forssol-Former N.V.</b> Common Shares Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Retailing May 1996 U.S. \$39,563,000 <b>Harcourt General, Inc.</b> Common Stock Sole Agent: Salomon Brothers</p>	<p>Country: United States Sector: Transportation May 1996 U.S. \$38,956,950 <b>Midwest Express Holdings, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>
<p>Country: United States Sector: Diving May 1996 U.S. \$150,000,000 <b>Nabors Industries, Inc.</b> 5% Convertible Subordinated Notes due 2006 Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Healthcare May 1996 U.S. \$45,000,000 <b>NPS Pharmaceuticals, Inc.</b> Common Stock Co-lead Manager: Salomon Brothers</p>	<p>Country: Austria Sector: Oil &amp; Gas May 1996 U.S. \$342,125,000 <b>OMV Aktiengesellschaft</b> Ordinary Bearer Shares in the form of Ordinary Bearer Shares or American Depositary Shares Co-lead Manager: Salomon Brothers</p>	<p>Country: Philippines Sector: Food May 1996 U.S. \$65,000,000 <b>RPM Capital Ltd.</b> 2.75% Convertible Bonds due 2006 guaranteed by and convertible into common shares of RPM Corporation Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Metals May 1996 U.S. \$111,000,000 <b>RMI Titanium Company</b> Common Stock Co-lead Manager: Salomon Brothers</p>	<p>Country: United States Sector: Healthcare May 1996 U.S. \$25,100,000 <b>SIBIA Neurosciences, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>
<p>Country: Argentina Sector: Steel May 1996 U.S. \$77,738,552 <b>Siderar S.A.I.C.</b> Class A Shares and American Depositary Shares Each Representing 5 Class A Shares Joint Global Coordinator and Bookrunner: Salomon Brothers</p>	<p>Country: Finland Sector: Healthcare May 1996 U.S. \$89,946,415 <b>Tamro Corporation</b> Shares Joint Lead Manager: Salomon Brothers</p>	<p>Country: United States Sector: Healthcare May 1996 U.S. \$472,750,000 <b>United States Surgical Corporation</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Electronics April 1996 U.S. \$250,000,000 <b>SCI Systems, Inc.</b> 5% Convertible Subordinated Notes due 2006 Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Mining April 1996 U.S. \$50,000,000 <b>Stillwater Mining Company</b> 7% Convertible Subordinated Notes due 2003 Bookrunner: Salomon Brothers</p>	<p>Country: Japan Sector: Financial April 1996 ¥100,000,000,000 <b>TB Finance (Cayman) Limited</b> Non-cumulative Mandatory Exchangeable Preference Shares exchangeable into common stock of The Tokai Bank, Limited Lead Manager and Bookrunner: Salomon Brothers</p>
<p>Country: United States Sector: Telecommunications April 1996 U.S. \$157,500,000 <b>Tel-Save Holdings, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Oil, Coal, Gas March 1996 U.S. \$215,000,000 <b>The Columbia Gas System, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Technology March 1996 U.S. \$52,000,000 <b>Eagle River Interactive, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: Italy, The Netherlands Sector: Luxury Goods March 1996 U.S. \$1,267,200,000 <b>Gucci Group N.V.</b> Common Stock Co-lead Manager: Salomon Brothers</p>	<p>Country: Greece Sector: Telecommunications March 1996 Dra. 127,857,536,000 <b>Hellenic Telecommunications Organization S.A.</b> Common Stock Joint International Lead Manager: Salomon Brothers</p>	<p>Country: India Sector: Iron, Steel March 1996 U.S. \$125,000,000 <b>Steel Authority of India Limited</b> Global Depositary Shares Co-lead Manager: Salomon Brothers</p>
<p>Country: Taiwan Sector: Electronics March 1996 U.S. \$200,000,000 <b>Winbond Electronics Corporation</b> 2% Convertible Bonds due 2003 Joint Global Coordinator and Bookrunner: Salomon Brothers</p>	<p>Country: Philippines Sector: Building Materials February 1996 U.S. \$110,579,044 <b>Alsons Cement Corporation</b> Common Stock International Lead Manager: Salomon Brothers</p>	<p>Country: United States Sector: Transportation February 1996 U.S. \$49,045,500 <b>Avondale Industries, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Consumer Services February 1996 U.S. \$138,937,500 <b>Career Horizons, Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: Germany Sector: Financial Buyer Private Placement / February 1996 DM 1,000,000,000 Limited Partnership Interests <b>CWB Capital Partners II Private Equity Fund</b> A fund managed by CWB Capital Partners Global Advisor and Lead Placement Agent: Salomon Brothers</p>	<p>Country: United Kingdom Sector: Electronics, Electrical February 1996 U.S. \$163,980,000 <b>Danka Business Systems plc</b> American Depositary Shares Co-manager and Financial Advisor: Salomon Brothers</p>
<p>Country: United States Sector: Healthcare February 1996 U.S. \$25,350,000 <b>Impath Inc.</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Technology February 1996 U.S. \$25,000,000 <b>ULTRADATA Corporation</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Oil, Coal, Gas January 1996 U.S. \$132,000,000 <b>Forest Oil Corporation</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Minerals January 1996 U.S. \$23,716,750 <b>Hecia Mining Company</b> Common Stock Lead Manager: Salomon Brothers</p>	<p>Country: United States Sector: Healthcare January 1996 U.S. \$36,818,750 <b>Integra LifeSciences Corporation</b> Common Stock Bookrunner: Salomon Brothers</p>	<p>Country: United States Sector: Minerals January 1996 U.S. \$242,962,500 <b>Newmont Mining Corp.</b> Common Stock Lead Manager: Salomon Brothers</p>

**Salomon Brothers**

GLOBAL PLACING POWER

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**Dixon**

default thereof, such creditors will be excluded from the benefit of any distributions from the sale of the assets of the Company and the proceeds of the sale of the assets of the Company shall be distributed to the holders of the Company's shares in accordance with the provisions of the Companies Act, 1993.

There are some signs, however, that the slump in semiconductor sales may already have bottomed.

The North American book-to-bill ratio, a closely watched indicator of the industry's health, rose in June, according to new data released this week

down in semiconductor sales; Intel, the world's largest chip-maker, is expected to show continued strong growth for the June quarter. Analysts are projecting earnings of \$1.09 a share, a nine per cent increase over 98 cents a share in the same period last year.

## June 1999

دکتر علی محمد



## COMPANIES AND FINANCE: UK AND IRELAND

## Dixons profits leap 35% to £135m

By Christopher Brown-Humes

Dixons, the UK's biggest electrical retailer, yesterday provided fresh evidence of rising consumer confidence as it reported a 35 per cent jump in underlying profits and a strong start to the current year.

Shares in the group rose 14.5p to 580p, as analysts sharply upgraded their profits forecasts for this year.

Sir Stanley Kalms, chairman, said: "Against the background of improving consumer confidence, the outlook for the financial year is promising."

The upbeat assessment confirms the views of other leading retailers, including Marks and Spencer and John Lewis, that sentiment in Britain's high streets is recovering.

Analysts said Dixons would do particularly well because spending - including windfall building society payouts - was being directed more towards consumer durables than clothing. It is the country's biggest seller of personal computers - where sales are growing rapidly - and should see higher white goods sales due to the housing market recovery.

Profits before tax and exceptional items rose from £100.5m to £135.2m (£210.9m) in the year to April 27. The pre-tax figure was £101.5m after an exceptional £38.7m write-off relating to a failed US investment.

The figures underline the group's dominance of the UK electrical retailing sector, where its 17 per cent market share dwarfs competitors such as Comet and the regional electricity companies. It reinforced its lead last year by lifting its market share in PCs, brown goods, white goods, and mobile phones.

One analyst said: "This is a real quality story. They are doing absolutely everything right."

Like-for-like sales rose 11 per cent, lifting total retail sales by 23 per cent to £1.9bn. The improvement reflects a 17 per cent rise in retail selling space, store refurbishments, and a jump in PC sales. Currys Superstores, PC World and The Link, were all expanded aggressively.

The star performer was PC World, the computer specialist, where sales more than doubled to £262m and like-for-like sales



Stanley Kalms: his upbeat assessment confirmed the views of other leading retailers

jumped 30 per cent. Sales at Dixons the high street chain specialising in personal and portable electronics, rose from £52m to £78m (9 per cent like-for-like sales at Currys, which concentrates on larger

white and brown goods, jumped 16 per cent to top the £1bn mark (a 10 per cent rise, like-for-like). The Link, a telecommunications specialist, saw sales leap from £1.8m to £31m.

Retail operating profits climbed 36 per cent to £125m. BZW upgraded this year's profits forecast from £160m to £190m, while Kleinwort Benson increased from £160m to £175m.

## Somerfield float could raise up to £570m

By Christopher Brown-Humes and David Blackwell

Somerfield, the UK's fifth biggest supermarket chain, is today expected to set an indicative price range for its flotation which would raise between £530m and £570m (£800m).

The range suggests Somerfield is holding its nerve in the face of a tougher new issues market and adverse comments on the group's prospects.

Dramatic evidence of the market problems emerged yesterday when Monsoon, the fashion retailer, abandoned plans to float.

Somerfield's flotation prospects are due to be published today.

Indications early this week suggested that institutional investors would take a lot of convincing to take the stock, except right at the bottom end of the range.

If Somerfield is floated according to the range in the prospectus, it will put the group on a price/earnings multiple of between 9 and 10 times. This is a substantial discount to the market - but not as big as some analysts have suggested is necessary to ensure success. One analyst said yesterday he had expected pricing to be between £450m and £500m.

However, the prospectus will include a provision to set a price outside of the published range, although such a move is unlikely to impress potential investors.

Last month Jarvis Hotels came to the market via a book-building exercise. At the last moment it raised the top of its range to 180p a share - well above the 150p-170p set in the prospectus. The final price was 175p, but the shares have since languished and closed yesterday at 171p.

Somerfield maintains that it has had a positive reception both from institutions and its own shoppers. It has undergone a strong recovery since Mr David Simons became chief executive in 1993, culminating in a 43 per cent jump in operating profits to £100.5m last year.

## LEX COMMENT

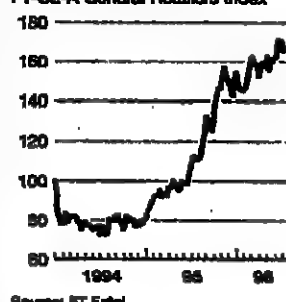
## Dixons

Dixons is sitting pretty as the dominant force in a growing market. Demand for electrical goods has risen by 7 per cent a year over the past decade, almost three times the rate of consumer spending generally. That should continue, with a raft of new products like flat screen televisions likely to attract more than their fair share of those building society windfalls. And Dixons is pulling away from the competition. Its market share in white and brown goods is already 20 per cent - twice that of nearest rival Comet - and rising as regional electricity companies and Escom of Germany (which bought most of the former Rumbelows shops in the UK) have run into trouble. Yesterday's 35 per cent increase in underlying profits showed the group reaping the benefits.

For now, Dixons should just keep on doing what it is doing already: opening more out-of-town sites; expanding its successful PC World computer format; and investing in distribution and customer service at a pace that rivals cannot match. Capital spending was 2.4 times depreciation last year and the ratio will be similar again this time. With Dixons' disastrous diversification into the US fresh in the directors' minds - the final £24m write-off was taken in these figures - there is little danger that the company will stray into foreign markets. And for the next three years there is plenty of room for expansion in the UK. After the massive outperformance of the past 18 months, the shares are trading on a lofty 19 times expected current-year earnings. But they offer earnings growth to match and still look attractive.

Dixons

Share price relative to the FT-SE-A General Retailers Index



Source: FT Index

## Brewers take fizz out of Matt Clark return to black

By David Blackwell

Matthew Clark, the acquisitive drinks company, yesterday blamed a sharp reduction in brewers' discounts on draught beer cutting profits in half at its wholesale division.

The collapse in wholesale profits, coupled with higher than expected exceptional charges for restructuring, disappointed the City, and the shares fell 17p yesterday to close at 74p. Operating profits at Freezers, the wholesale side that takes 100,000 barrels of beer a year, tumbled to £2.7m (£5.3m), and margins fell to 1.7 per cent (4.4 per cent).

Mr Peter Atkins, chief executive, said 18 months ago the group had been buying beer on the same terms as pub groups, but now it was paying £40 to £45 more per barrel. But he believed there was no further downside, and predicted that

the wholesaling business presented a great opportunity as the tied system between brewers and pubs continued to fragment.

The group returned to the black in the year to April 30, with pre-tax profits of £17.2m (£26.8m) after exceptional charges of £25.1m for restructuring. This compares to a pre-tax loss of £11.3m after exceptional charges of £22.7m in the previous period.

Group sales rose by more than half to £451m, with acquisitions contributing £99.4m. Wholesale sales accounted for £122.8m, up more than a third.

Mr Atkins, who has driven the group to second place in the UK cider market behind Bulmer, said the group was planning for organic growth through its collection of leading brands, including Gaymer's Old English and Taunton Cider's Blackthorn. "The disruption and hell and high

water is behind us, and all tails arrip."

Operating profits in the brands drinks division jumped from £17m to £41.2m, with margins jumping from 9.5 per cent to 14.3 per cent. The sales increased 61 per cent to £288.4m including £86.8m from acquisitions.

The group claims 41 per cent of the UK cider market after paying 100m for Gaymer's at the end of 1994 and £276m for Taunton last November. It is concentrating on Old English for the off-trade and Blackthorn for the on-trade.

Mr Atkins admitted that the disruption of integrating the two acquisitions had damaged marketshare for both brands, but it was too early to break but their individual performances.

A £1 dividend of 15p is proposed, lifting the total for the year to 24p (21p).

## Laporte nears end of disposal plans

By Simon Kuper

Laporte, the UK's fourth largest chemicals company, completed the bulk of its divestment programme yesterday, raising £23.5m (£36.7m) by disposing of non-core businesses and saying it would invest £18m in its electronics division.

The sales, which follow Laporte's divestment from most of its Australasian businesses in June, mean the company has received more than £22m cash in two months. Mr Jim Leng, chief executive, said Laporte planned to sell further companies representing "a bit more" than £10m in turnover.

The businesses sold yesterday made operating profits of £1.9m on sales of £22.3m in 1995. They are Gramco, a Birmingham-based process chemicals business; Countdown Clean Systems, a cleanroom garments business; Waverly

Minerals, a US pet litter business; and Laporte's 50 per cent stake in Laporte (Malaysia), an absorbents business.

They have been sold for a £7.3m premium over net asset value, but there will be a goodwill write-off of about £14m. Analysts left their pre-tax profit forecasts unchanged at £190m. "The businesses they are selling are frankly virtually unprofitable," said one.

Laporte made restructuring provisions of £88.7m last December when it decided to sell off non-core businesses accounting for 10 per cent of its sales.

Laporte will invest £18m in the next two years to expand its reprocessing facilities for high-margin electronic silicon wafers, used in making semiconductors. Of the money, £8.5m will be spent on expanding existing facilities in the UK and France, and £12.5m on a new plant in Phoenix, Arizona.

## Cambrio flotation value downgraded to £20m

By Simon Kuper

The biotechnology sector suffered another blow yesterday when Cambrio said its valuation at flotation would probably be only £20m (£31.2m) - the bottom end of its revised target set last week - and postponed its entry to the market until the end of the month.

In June, the Cambridge-based drugs company had been hoping for a £25m valuation and an impact day of July 4.

Mr Richard Onyett, a director, said that Henry Cooke Corporate Finance, sponsor of the float, was "continuing to market" the shares to institutions. However, institutions have been asked to invest in five biotech flotations and several rights issues on the main market alone in the last few

months. British Biotech launched a £145m rights last month. Cambrio is hoping to raise £10m.

Mr Onyett said it was wrong to link Cambrio to the biotech sector, in which most stocks have fallen in recent weeks. This meant that unlike a typical biotech company, Cambrio already had one product on the market - Paradote, an over-the-counter paracetamol - and another, a thalidomide-based drug for AIDS, that was already being sold to patients although it was still undergoing clinical trials.

Cambrio suffered pre-tax losses of £242,000 (£1.13m) on sales of £4.2m (£4.98m) for the year to March 31. The main operating subsidiary is Penn Pharmaceuticals, a private company.

## Analyst joins board of mlisted Phairson

By Simon Kuper

Mr Dier Cowling makes the rare jump from an analyst's job to writing for a biotechnology company tomorrow, when he leaves James Capel, the stockbroker, to become director of business development at mlisted Phairson Medical.

Mr Cowling is part of the Capel team that took second place in the annual survey of health care analysts and third place in its survey of pharmaceutical analysts.

At 51 he has worked nearly a decade in the City, having spent five years as an analyst at Nomura Research Institute and six years at Capel. He said: "I didn't realise it would happen quickly as this, but I always thought if an offer came from the right company

with the right technology I'd consider it."

Phairson, founded in late 1988, is developing products using the compound PHM-101, an enzyme discovered in a species of Antarctic Krill. Five phase II clinical studies have been completed for use of the compound to combat infections including genital herpes and post-partum hemorrhoids. Clinical trials in acne, fungal nail infections and genital warts are still being carried out. Mr Cowling said: "The product definitely has biological activity, but we don't know what this will mean therapeutically yet."

Phairson is thought to have no immediate plans to float, given the market's sceptical attitude to biotechnology stocks in recent weeks.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends (p)	Total for year	Total last year
BWV	6 mths to May 31	7.79 (8.86)	1.31 (1.03)	4.4 (5)	2	Oct 1	1.7	8
Borden Television	Yr to Apr 30	12.84 (11.81)	2.3 (1.83)	14.7 (8.8)	3.8	Sep 17	2.3	4.8
Compos	Yr to Mar 31	8.25 (2.3)	2.19 (0.728)	7.4 (2.4)	3.24	Oct 1	3.24	3.24
Dixons Group	Yr to Apr 27	1,920 (1,647)	101.54 (100.3)	15.31 (8.7)	6.7	Oct 1	5.45	8.75
Dixons Franchising	6 mths to Apr 30	51.6 (60.2)	4.05 (4.73)	8.83 (5.4)	4.0	Oct 1	3.7	10.1
FI Group	Yr to Apr 30	78.82 (61.7)	3.756 (3.26)	8.21 (4)	2.7	Oct 1	4.1	3.5
MAW	6 mths to Mar 31	58.7 (48.3)	0.943 (1.06)	3.11 (3.6)	1.25	Aug 18	1.25	3.5
Matthew Clark	Yr to Apr 30	450.9 (298.3)	17.194 (11.35)	18.4 (7.1)	15	Oct 3	13	24
Stanley Leisure	Yr to Apr 28	318.1 (293.1)	14.75 (16.97)	18.6 (2)	4.85	Sep 18	4.15	6.15

Source: Companies' accounts. Figures in brackets are for corresponding period. After exceptional credit. After exceptional credit. After exceptional credit.

## GT US SMALL COMPANIES FUND

Société d'Investissement à Capital Variable  
2, boulevard Royal, LUXEMBOURG  
R.C. Luxembourg B-25176

Notice is hereby given to the shareholders, that the

## ANNUAL GENERAL MEETING

of shareholders of GT US SMALL COMPANIES FUND will be held at the offices of Banque Internationale à Luxembourg, Société Anonyme, 69, rue d'Esch, L-1470 Luxembourg, on Friday, July 19, 1996 at 4.00 p.m. with the following agenda:

1. To consider and approve the Reports of the Board of Directors and of the Auditor;
2. To approve the Statement of Net Assets and the Statement of Operations as at March 31, 1996 and to allocate the net results;
3. To discharge the Board of Directors and Auditor in respect of the performance of duties for the period ended March 31, 1996;
4. To elect the Directors to serve until the next Annual General Meeting;
5. To elect as Auditor to serve until the next Annual General Meeting of Shareholders, Coopers & Lybrand S.C.;
6. To approve the payment of Directors' fees;
7. Any other business;
8. Adjournment.

The shareholders are advised that no quorum is required for the meeting of the Board of Directors and the Statement of Net Assets and the Statement of Operations will be taken on a simple majority of the shares present or represented at the meeting.

In order to attend the meeting of July 19, 1996, the owners of bearer shares will have to deposit their shares five clear days before the meeting with Banque Internationale à Luxembourg, 69, rue d'Esch, L-1470 Luxembourg.

THE BOARD OF DIRECTORS

## GT DEUTSCHLAND FUND

Société d'Investissement à Capital Variable  
2, boulevard Royal, LUXEMBOURG  
R.C. Luxembourg B-25023

Notice is hereby given to the shareholders, that the

## ANNUAL GENERAL MEETING

of shareholders of GT DEUTSCHLAND FUND will be held at the offices of Banque Internationale à Luxembourg, Société Anonyme, 69, rue d'Esch, L-1470 Luxembourg, on Friday, July 19, 1996 at 2.30 p.m. with the following agenda:

1. To consider and approve the Reports of the Board of Directors and of the Auditor;
2. To approve the Statement of Net Assets and the Statement of Operations as at March 31, 1996 and to allocate the net results;
3. To discharge the Board of Directors and Auditor in respect of the performance of duties for the period ended March 31, 1996;
4. To elect the Directors to serve until the next Annual General Meeting;
5. To elect as Auditor to serve until the next Annual General Meeting of Shareholders, Coopers & Lybrand S.C.;
6. To approve the payment of Directors' fees;
7. Any other business;
8. Adjournment.

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THE BOARD OF DIRECTORS

## Number 1 in the Eurolira Market in 1995

 <b>Abbey National</b> Lire 275 billion 11% Callable Notes due 1998	 <b>Abbey National</b> Lire 200 billion 11% Notes due 1997	 <b>Republic of Austria</b> Lire 200 billion Zero Coupon Notes due 1998	 <b>Verreinsbank</b> Bayerische Vereinsbank Lire 200 billion 12% Notes due 1997
 <b>Council of Europe</b> Lire 150 billion Zero Coupon Notes due 1997	 <b>Crédit Local de France</b> Lire 300 billion Zero Coupon Notes due 1997	 <b>European Investment Bank</b> Lire 300 billion 10.45% Notes due 2000	 <b>European Investment Bank</b> Lire 1,000 billion Floating Rate Notes due 2000
 <b>General Electric Capital Corporation</b> Lire 100 billion 10.375% Notes due 2000	 <b>Helaba</b> Helaba Frankfurt Lire 300 billion 11% Notes due 1998	 <b>Pepsico</b> Lire 150 billion 11.375% Notes due 1998	 <b>Rabobank Nederland</b> Lire 150 billion 11% Notes due 1998
 <b>Rabobank Nederland</b> Lire 250 billion 10.05% Notes due 1997	 <b>World Bank</b> Lire 200 billion Zero Coupon Notes due 1996	 <b>World Bank</b> Lire 150 billion 10.60% Callable Notes due 1998	 <b>World Bank</b> Lire 250 billion 10.60% Callable Notes due 1997

In 1995, for the second consecutive year, Credito Italiano ranked as the **Leading Bookrunner** in the Eurolira Bond Market having **Lead Managed 24 bond issues** totalling Lire 2,800 billion with a **market share of 14.2%**

CAPITAL MARKETS DEPARTMENT  
Head Office, Piazza Cordusio, 20123 Milan



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## CURRENCIES AND MONEY

## MARKETS REPORT

## US dollar weakens over concern about yen policy

By Graham Bowley

The dollar weakened on the foreign exchanges yesterday amid growing uncertainty about the policy stance of the US and Japanese authorities towards the yen and the dollar.

Sterling recovered after Tuesday's decline caused by expectations of lower interest rates and slight signs of a split between the UK Treasury and the Bank of England.

The D-Mark found strong support against most currencies in spite of another set of weak economic data. Analysts said the Bundesbank was unlikely to cut interest rates at its regular council meeting today.

The French authorities cut the overnight call money rate by 1/8 percentage points to 3 1/2 per cent. Economists said this might signal a further cut in the official intervention rate.

The Belgian franc weakened. Some traders said the weakness was linked to declines in the

Belgian and Dutch government bond markets which in turn were linked to rising expectations of an increase in Dutch interest rates.

The Australian dollar rose as it benefited from increased investment flows from Japan.

The dollar finished in London against the D-Mark at DM1.5246 from DM1.5233, and against the yen at ¥110.126 from ¥110.24.

Sterling closed at DM2.3683, from DM2.3687. It finished against the dollar at \$1.5535, from \$1.5517. Sterling's index-weighted exchange rate traded closed at 86.5 from 86.4 at the previous close.

With markets again quiet yesterday, attention turned to speculation about the US and

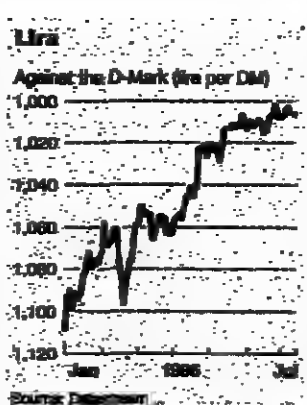
Japanese authorities' attitude to the dollar's recent rally and about US interest rate policy.

The dollar's rally has begun to provoke comments from both Japan and the US, leaving currency markets uneasy about the direction the authorities might take the currency in 1996.

Remarks by Japanese officials have over the last few weeks left traders feeling that they may be unhappy with the speed at which the dollar has gained ground against the yen.

There are fears that a weak yen will lead to rising import price inflation, which may bring forward a potential interest rate tightening.

In addition, traders fear Japanese companies which have responded to the appreciation of the yen in recent years by shifting production overseas may now begin to lobby against a weaker yen since this leaves them at a disadvantage when they import goods back into the country.



US companies on the other hand have begun to complain that the recent appreciation of the dollar against the yen may soon begin to hurt exports.

Traders fear they may start to pressure the US government to reverse the dollar's rise.

The US administration is not about to bow to the US corporate lobby but it does mean it is unlikely to pursue a

stronger dollar policy," said Mr Paul Meggysey, strategist at Deutsche Morgan Grenfell.

He said that as long as it remained unclear whether the US and Japanese governments were prepared to resist these pressures or not, there was scope for the dollar to head lower.

Mr Gerard Lyons, chief economist at DKB International in London, said: "The market is waiting to see some shake-out in the dollar against the yen, but even then there is still an upward bias for the dollar against the yen."

Speculation about US interest rate policy intensified as analysts attempted to predict what Mr Alan Greenspan, Federal Reserve chairman, might say at this month's Humphrey-Hawkins testimony.

Newspaper reports that some Fed committee members might argue against an interest rate rise even if growth did accelerate since stronger growth need

not necessarily mean higher inflation added to the debate.

The pound recovered from its tumble on Tuesday. This followed criticism by Mr Kenneth Clarke, the chancellor, of Bank of England economic forecasts, which analysts said appeared to highlight a rift between the Bank and the Treasury.

The pound had also been undermined by the UK Treasury's summer economic forecast on Tuesday. This revised up the projection for government borrowing which therefore appeared to suggest the government would have to turn to lower interest rates if it was to meet its optimistic growth forecasts.

US interest rates were also undermined by the UK Treasury's summer economic forecast on Tuesday. This revised up the projection for government borrowing which therefore appeared to suggest the government would have to turn to lower interest rates if it was to meet its optimistic growth forecasts.

## POUND SPOT FORWARD AGAINST THE POUND

Jul 10	Closing mid-point	Change on day	Day's high	Day's low	One month	Three months	One year	Bank of England
Australia	16.5581	+0.0032	16.578	16.538	16.5581	16.5581	16.5581	16.5581
Belgium	16.7028	+0.0015	16.718	16.688	16.7028	16.7028	16.7028	16.7028
Denmark	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
France	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Germany	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Greece	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Ireland	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Italy	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Japan	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Netherlands	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Norway	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Portugal	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Spain	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Sweden	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
Switzerland	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
UK	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242
USA	16.7242	+0.0010	16.738	16.710	16.7242	16.7242	16.7242	16.7242

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 10	Closing mid-point	Change on day	Day's high	Day's low	One month	Three months	One year	J.P. Morgan
Australia	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Belgium	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Denmark	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
France	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Germany	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Greece	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Ireland	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Italy	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Japan	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Netherlands	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Norway	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Portugal	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Spain	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Sweden	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
Switzerland	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
UK	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257
USA	10.7257	+0.0008	10.738	10.712	10.7257	10.7257	10.7257	10.7257

## CROSS RATES AND DERIVATIVES

## EXCHANGE CROSS RATES

Jul 10	Rate	Change	High	Low	Est. vol	Open int.
Belgium	16.7028	+0.0015	16.718	16.688	16.7028	16.7028
Denmark	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
France	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Germany	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Greece	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Ireland	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Italy	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Netherlands	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Norway	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Portugal	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Spain	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Sweden	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
Switzerland	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
UK	16.7242	+0.0010	16.738	16.710	16.7242	16.7242
USA	16.7242	+0.0010	16.738	16.710	16.7242	16.7242

## UK INTEREST RATES

Rate	Change	High	Low	Est. vol	Open int.
3m	0.0000	0.0000	0.0000	0.0000	0.0000
6m	0.0000	0.0000	0.0000	0.0000	0.0000
12m	0.0000	0.0000	0.0000	0.0000	0.0000

## LONDON MONEY RATES

Rate	Change	High	Low	Est. vol	Open int.
3m	0.0000	0.0000	0.0000	0.0000	0.0000
6m	0.0000	0.0000	0.0000	0.0000	0.0000
12m	0.0000	0.0000	0.0000	0.0000	0.0000

## UK clearing bank base lending rate

Up to 1 month	5.50
1-3 months	5.50
3-6 months	5.50
6-12 months	5.50

## Certs of Tax dep. £100,000

3m	5.50
6m	5.50
12m	5.50

## THREE MONTH STERLING FUTURES (LIFE) £50,000 points of 100%

Open	94.31
Settle	94.31
High	94.31
Low	94.31
Est. vol	94.31
Open int.	94.31

## SHORT STERLING OPTIONS (LIFE) £50,000 points of 100%

Strike	94.31
Call	0.00
Put	0.00

## BASE LENDING RATES

Bank of England	5.50
Bank of Ireland	5.50
Bank of Scotland	5.50

## KOREA LIBERALISATION FUND

## International Depository Receipts representing 100 Ordinary shares

Notice is hereby given to the IDRs holders that the members of the Korea Liberalisation Fund Limited declared a distribution of US \$0.03 per Ordinary share. The record date for this dividend was 18th June 1996.

As of 12th July 1996 payment of coupon number 5 of the International Depository Receipts will be made in US Dollars at the rate of US \$3.00 per IDR.

Payment will be made upon surrender of the relevant coupon at any of the following offices of Morgan Guaranty Trust Company of New York:

60, Victoria Embankment, London EC4Y 0DP  
Mainzer Landstrasse 46, D-60325 Frankfurt-am-Main, Germany

and with the Depository at the address indicated below:  
Depository: Morgan Guaranty Trust Company of New York  
Avenue des Arts 33, Brussels 1040, Belgium

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FORD MOTOR CREDIT COMPANY U.S. \$ 300,000,000

FLOATING RATE NOTES DUE APRIL 10, 2001

In accordance with the provisions of the above mentioned Notes, notice is hereby given as follows:

Interest period: July 10th, 1996 to October 10th, 1996 (92 days)

Interest payment date: October 10th, 1996

Interest rate: 5.875% per annum

Coupon amount: US \$ 149.18 per note of US \$ 100,000

US \$ 1,491.81 per note of US \$ 1,000,000

Agent Bank: BANCLE INTERNATIONALE A LUXEMBOURG

St. George Bank Limited

U.S. \$250,000,000

Floating Rate Notes due 2000

Notice is hereby given that for the Interest Period 9th July, 1996 to 9th October, 1996 the Notes will carry a rate of interest of 5.87422% per annum. The Interest Amount payable will be U.S. \$150.12 per U.S. \$100,000 Note and U.S. \$1,501.19 per U.S. \$1,000,000 Note. The Interest Payment Date will be 9th October, 1996.

Bankers Trust Company, London

Agent Bank

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Bankers Trust Company, London

Agent



## COMMODITIES AND AGRICULTURE

## MARKET REPORT

## Selling wave sends cocoa to 3 1/2-month low

A heavy wave of speculative selling pounded London COMEX futures yesterday, sending nearby prices below \$1,000 a tonne for the first time in three and a half months. The September delivery contract touched \$986 a tonne before closing at \$1,001, down \$50, or 5 per cent, on the day.

The liquidation brought an abrupt end to the massive premium the contract had been commanding over forward positions.

LCE robust COFFEE futures shook off early losses to end down but off fresh near six-month lows of \$1,615 a tonne on strong New York prices and jitter over possible frosts in Brazil, traders said.

"London is jumpy. Everyone is wary about the second mass of cold air moving into Brazil. You have got to watch out but you can't get too hysterical about it," said one.

At the close the benchmark September contract was down \$21 at \$1,642.

Traders said both Brazilian and U.S. forecasts who are sometimes at odds - were both forecasting increased frost risk for some Brazilian coffee areas.

Weather Services Corp said frosts would threaten southern Brazil by today, with lows of 34° to 37°C in northern Paraná, south-west São Paulo and the

higher elevations of northern São Paulo.

At the London Metal Exchange COPPER prices finished on the defensive after a bout of selling during afternoon hours trading at the end of an otherwise featureless day.

Three month copper futures finished at \$1,914, down \$11 from Tuesday's afternoon high but above the day's low at \$1,890.

Floor traders noted bank selling during the morning session, which some linked with liquidation of outstanding Sumitomo long positions. As long as the company's position remained unclear, sentiment was likely to remain bearish, dealers added.

They said copper has the potential for one more sharp rally in the short to medium term after which new supply coming on stream would send the market lower again during the latter stages of the year.

NICKEL prices fell to six-month lows as speculative liquidation and weakness in copper again weighed on the market. The three months price has fallen sharply from its recent peak of \$3,620 a tonne, hit on May 8. Traders attribute the retracement both to copper's heavy losses and weak physical demand during the past few months.

Compiled from Reuters

## Snow and floods dash Romanian harvest hopes

The wheat crop is likely to be less than half last year's bumper level, writes Virginia Marsh

Romania, central Europe's most important agricultural producer after Poland, is heading for one of its worst wheat harvests in decades, dashing its hopes of cashing in on high international grain prices for the second year running.

The country had expected to harvest about 6m tonnes of wheat this year, down from 7.8m tonnes in 1995 because of a harsh winter. However, late spring snows followed by floods and heavy rain in recent weeks, mean it may now produce just 3m to 3.5m tonnes, according to the ministry of agriculture.

Last year's bumper crop, its biggest since 1969, had enabled the country to set aside a large quantity of grain for export for the first time since the beginning of market reforms, providing it with an extra source of badly-needed foreign exchange. Although some 1.2m tonnes of last year's surplus has already been sold abroad, stocks are estimated at 2m tonnes and the country is not expected to face shortages. Further export tenders due this summer have now been cancelled.

The loss of much of the wheat crop is a significant setback for the agricultural sector, which had begun to recover from a severe post-communist recession, complicated by a serious drought in 1992, and the disruption caused

by the break-up of farming co-operatives.

It is also a setback for the economy in general and will exacerbate the trade deficit in food and agricultural products, which last year was about \$320m, in spite of the wheat exports.

Apart from Albania,

The return of most farmland to more than 5m former owners or their descendants under a 1991 act is regarded as one of the country's most important post-communist reforms. It has, however, led to farmland being divided up into small, uneconomical plots - the average amount returned was just

## Last year agriculture provided about 35 per cent of employment in Romania and 21.6 per cent of GDP

Romania is more dependent on agriculture than any other country in the former Eastern bloc and reform of the sector is critical to its aspirations to join the European Union. Last year's bumper crop provided about 35 per cent of employment and 21.6 per cent of gross domestic product, compared with contributions to GDP of 6.1 per cent in Slovakia and Poland and of 3.3 per cent in the Czech Republic. Last year's 6.5 per cent increase in gross agricultural output was an important factor in the 6.5 per cent rise in Romania's GDP.

Because of land restitution Romanian agriculture is now overwhelmingly private, with state farms and companies providing just 13 per cent of last year's agricultural production.

2.2 hectares, often in three or four parcels of land. Although cereal production recovered relatively quickly, the land and other reforms initially had a particularly negative impact on livestock production, with many small farmers lacking the resources to care for large numbers of animals. In addition many large state-run pig and poultry farms have faced severe financial difficulties, partly due to sharp increases in energy prices since 1989. Livestock production has begun to recover but the share of gross agricultural output has fallen from 45.6 per cent to about 39 per cent.

In the private agriculture sector such problems have been deepened by delays in

giving farmers full title to their property and the absence of a land market. Only around 65 per cent of titles have been handed out so far, because of difficulties in measuring and recording the ownership of so many plots of land and the many disputes and counter-claims. Almost all have received preliminary papers, however, and most know which plots will eventually be theirs. This has enabled farmers to pool or lease land and form larger units, but those without titles cannot use their land for security against loans, restricting their ability to buy seeds, fertilisers and equipment.

The development of a land market has also been held up by restrictions in the 1991 law on the buying and selling of restricted land. The Romanian parliament is considering a follow-up law which would oblige farmers to sell their land holdings to co-owners, neighbours or those leasing the property in that order. If no buyer is found in these categories then a new national rural development agency would have the right to acquire the land.

However, one of the proposals is that the agency would pay a centrally-determined price for land, above its current market value which the government - a left-wing minority that faces general elections in November - considers too low. This could lead

to the agency, to be funded by the cash-strapped state, being flooded with offers. Agriculture already receives more direct state support than other parts of the economy with the sector due to receive 1,300bn lei (\$490m) in subsidised credits this year - a huge amount in a country where the average wage is less than \$100 a month.

Independent analysts, as well as the central bank, argued against the credits. As well as having inflation, the loans were generally granted too late to help with seed purchases and planting and thus substantially improve this year's crops. In the past, the subsidies have also benefited most the small state farming sector as well as other state entities such as fertiliser manufacturers, rather than the private sector, given the difficulties of channelling loans to millions of farmers.

Analysts say that perhaps the biggest problem that remains is marketing and distribution. Until last year, in the grain sector, for example, this was handled by Romceal, a state monopoly, which controlled storage and transport facilities and, in the absence of private competition, was able to dictate prices. This led to farmers being paid a fraction of world wheat prices.

The government has been unwilling to break up such monopolies and loosen price

controls and trade restrictions that still exist for many products, partly because of concern over food security. According to official statistics, 50 to 60 per cent of the average household's spending goes on food, making shortages or changes in prices of basic items like bread and milk a sensitive issue. The bulk of fruit and vegetable purchases are made in street markets where prices are free.

However, after Romceal's financial difficulties last year and its inability to cope with the bumper crop, the government finally agreed to break it up into 41 companies, one for each county, although some of its assets have remained in a state agency. The World Bank and other advisers suggested dividing the company into even smaller units more easily able to compete with each other. However, the move is seen as a step in the right direction and the 41 companies are due to be privatised.

It is also hoped that the government will introduce a more stable and transparent trade regime and system of price controls. Mr Valeriu Tabara, the agriculture minister, said recently that the sector needed \$200m in investment to develop over the next decade. However, analysts say the frequent changes to import and export quotas and to tariffs, as well as the problems of land ownership, are deterring private investors.

## Cominco group buys into Peruvian lead/zinc mine

By Robert Gibbons in Montreal

Cominco, the Canadian mining and metals group, has bought an indirect 12.7 per cent interest in Minera El Brocal, operator of the 2,100-tonne-a-day Colquijirca lead/zinc mine in Peru.

El Brocal also owns a poten-

tial open pit mine nearby with reserves of 70m tonnes averaging 7 per cent zinc and 2 per cent lead and another property with 50m tonnes averaging 1.8 per cent copper and suited to Cominco's hydrometallurgical treatment.

Cominco plans feasibility studies on both properties.

## Aluminium smelter stocks fall

Total stocks of all forms of aluminium at western world smelters, excluding finished end-products, fell to 3.391m tonnes at the end of May 1996, compared with an upwardly revised 3.568m in April and 3.776m in May 1995, provisional International Primary Aluminium Institute figures show, reports Reuters.

Unwrought metal stocks fell to 1.846m tonnes from 1.917m and 2.144m.

News of the drawdown, which took the total to the lowest level since March 1993, had little price impact on the market, traders said. The London Metal Exchange three months delivery price closed at \$1,635.5 a tonne, up just \$1.

"The market does not react the way it used to," one trader said. "It's just watching copper

the stocks decline, the latest in a run stretching back to December 1995, was above some forecasts although there was a rise in LME warehouse stocks of some 36,000 tonnes in May indicating an element of stock re-distribution.

The producer stock fall followed a decline in LME stocks on Tuesday of 4,950 tonnes, which was an encouraging signal although analysts say consistent terminal market declines are needed to establish a trend.

## Food Summit to tackle distribution

By Caroline James in Kingston

The problems of distribution to low-income food deficient countries, and an increase in production to meet an expanding world population, will dominate the agenda of the World Food Summit planned for Rome in November, according to Mr Jacques Diouf, director general of the Food and Agriculture Organisation of the United Nations.

At the summit, the FAO will

be recommending an increase in the allocations of national budgets for investments in agriculture, with increased control of water so that food production is not dependent on the vagaries of the weather, Mr Diouf said in Barbados.

"There are 800m people facing starvation, 200m of whom are children under five... By 2030, the world population would have grown by 30m to 5.7bn, and governments must now address food security."

The summit will coincide with a deterioration in global food supply. After a surplus for several years, the stock of cereals is at 12 per cent of total annual consumption, leading to a 75 per cent increase in prices, the FAO chief said.

The FAO will warn that improvements to global food security must not cause over-fishing and the pollution of surface and underground water resources, or soil erosion, Mr Diouf said.

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Unsmelted Metal Trading)

ALL ALUMINIUM, 99.7% Purity (in \$ per tonne)

Cash 1485-47 1800-504

Close 1485-47 1800-504

Previous 1485-47 1800-504

High/Low 1485-47 1800-504

AM Official 1485-47 1800-504

Mark close 1485-47 1800-504

Open int. 238,189

Total daily turnover 31,577

ALL ALUMINIUM ALLOY (in \$ per tonne)

Close 1840-43 1276-80

Previous 1840-43 1276-80

High/Low 1840-43 1276-80

AM Official 1840-43 1276-80

Mark close 1840-43 1276-80

Open int. 5,436

Total daily turnover 595

LEAD (in \$ per tonne)

Close 793-4 794-5

Previous 793-4 794-5

High/Low 793-4 794-5

AM Official 793-4 794-5

Mark close 793-4 794-5

Open int. 32,644

Total daily turnover 6,367

INCHES (in \$ per tonne)

Close 7405-15 7520-25

Previous 7405-15 7520-25

High/Low 7405-15 7520-25

AM Official 7405-15 7520-25

Mark close 7405-15 7520-25

Open int. 41,992

Total daily turnover 9,087

IN TIN (in \$ per tonne)

Close 6300-30 6365-70

Previous 6300-30 6365-70

High/Low 6300-30 6365-70

AM Official 6300-30 6365-70

Mark close 6300-30 6365-70

Open int. 18,296

Total daily turnover 8,137

IN ZINC, special high grade (in \$ per tonne)

Close 998-59 1026-27

Previous 998-59 1026-27

High/Low 998-59 1026-27

AM Official 998-59 1026-27

Mark close 998-59 1026-27

Open int. 95,178

Total daily turnover 13,328

IN COPPER, grade A (in \$ per tonne)

Close 1980-80 1923-24

Previous 1980-80 1923-24

High/Low 1980-80 1923-24

AM Official 1980-80 1923-24

Mark close 1980-80 1923-24

Open int. 301,148

Total daily turnover 61,206

IN LIME, 90% Official (in \$ per tonne)

Close 382-90 383-10

Previous 382-90 383-10

High/Low 382-90 383-10

AM Official 382-90 383-10

Mark close 382-90 383-10

Open int. 382-90 383-10

Total daily turnover 382-90 383-10

IN HIGH GRADE COPPER (COMINCO)

Close 382-90 383-10

Previous 382-90 383-10

High/Low 382-90 383-10

AM Official 382-90 383-10

Mark close 382-90 383-10

Open int. 382-90 383-10

Total daily turnover 382-90 383-10

## Precious Metals continued

IN GOLD COMEX (100 Troy oz; \$/troy oz)

Close 382.8 -0.1 112.26 110.40 41 128

Previous 382.8 -0.1 112.26 110.40 41 128

High/Low 382.8 -0.1 112.26 110.40 41 128

AM Official 382.8 -0.1 112.26 110.40 41 128

Mark close 382.8 -0.1 112.26 110.40 41 128

Open int. 25,628

Total daily turnover 25,628

IN PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Close 591.0 -0.8 382.1 381.8 220 658

Previous 591.0 -0.8 382.1 381.8 220 658

High/Low 591.0 -0.8 382.1 381.8 220 658

AM Official 591.0 -0.8 382.1 381.8 220 658

Mark close 591.0 -0.8 382.1 381.8 220 658

Open int. 2,407

Total daily turnover 2,407

IN PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Close 132.08 -133.30 132.70 88 6,780

Previous 132.08 -133.30 132.70 88 6,780

High/Low 132.08 -133.30 132.70 88 6,780

AM Official 132.08 -133.30 132.70 88 6,780

Mark close 132.08 -133.30 132.70 88 6,780

Open int. 12,928

Total daily turnover 12,928

IN SILVER COMEX (5,000 Troy oz; \$/troy oz)

Close 506.5 -0.2 311.0 308.0 32 167

Previous 506.5 -0.2 311.0 308.0 32 167

High/Low 506.5 -0.2 311.0 308.0 32 167

AM Official 506.5 -0.2 311.0 308.0 32 167

Mark close 506.5 -0.2 311.0 308.0 32 167

Open int. 13,888

Total daily turnover 13,888

IN CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

Close 19.54 -0.01 19.75 19.54 14,670 32,872

Previous 19.54 -0.01 19.75 19.54 14,670 32,872

High/Low 19.54 -0.01 19.75 19.54 14,670 32,872

AM Official 19.54 -0.01 19.75 19.54 14,670 32,872

Mark close 19.54 -0.01 19.75 19.54 14,670 32,872

Open int. 18,129

Total daily turnover 18,129

IN CRUDE OIL IPE (in \$/barrel)

Close 19.54 -0.01 19.75 19.54 14,670 32,872

Previous 19.54 -0.01 19.75 19.54 14,670 32,872

High/Low 19.54 -0.01 19.75 19.54 14,670 32,872

AM Official 19.54 -0.01 19.75 19.54 14,670 32,872

Mark close 19.54 -0.01 19.75 19.54 14,670 32,872

Open int. 18,129

Total daily turnover 18,129

IN HEATING OIL NYMEX (42,000 US gal; \$/gal)

Close 55.35 -0.05 55.40 55.35 1,470 20,699

Previous 55.35 -0.05 55.40 55.35 1,470 20,699

High/Low 55.35 -0.05 55.40 55.35 1,470 20,699

AM Official 55.35 -0.05 55.40 55.35 1,470 20,699

Mark close 55.35 -0.05 55.40 55.35 1,470 20,699











## FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (044 773) 673 4576 for more details.

Asia Pacific	Price	Change	YTD	Europe	Price	Change	YTD	North America	Price	Change	YTD	Global	Price	Change	YTD	Specialist	Price	Change	YTD
Fund Name				Fund Name				Fund Name				Fund Name				Fund Name			
Asia Pacific Growth Fund	1.25	+0.02	+1.25	Europe Growth Fund	1.10	+0.01	+1.10	North America Growth Fund	1.05	+0.01	+1.05	Global Growth Fund	1.00	+0.01	+1.00	Specialist Growth Fund	0.95	+0.01	+0.95
Asia Pacific Income Fund	1.15	+0.01	+1.15	Europe Income Fund	1.05	+0.01	+1.05	North America Income Fund	1.00	+0.01	+1.00	Global Income Fund	0.95	+0.01	+0.95	Specialist Income Fund	0.90	+0.01	+0.90
Asia Pacific Bond Fund	1.05	+0.01	+1.05	Europe Bond Fund	1.00	+0.01	+1.00	North America Bond Fund	0.95	+0.01	+0.95	Global Bond Fund	0.90	+0.01	+0.90	Specialist Bond Fund	0.85	+0.01	+0.85
Asia Pacific Equity Fund	1.30	+0.03	+1.30	Europe Equity Fund	1.15	+0.02	+1.15	North America Equity Fund	1.10	+0.02	+1.10	Global Equity Fund	1.05	+0.02	+1.05	Specialist Equity Fund	1.00	+0.02	+1.00
Asia Pacific Dividend Fund	1.20	+0.02	+1.20	Europe Dividend Fund	1.10	+0.02	+1.10	North America Dividend Fund	1.05	+0.02	+1.05	Global Dividend Fund	1.00	+0.02	+1.00	Specialist Dividend Fund	0.95	+0.02	+0.95
Asia Pacific Hedge Fund	1.40	+0.04	+1.40	Europe Hedge Fund	1.20	+0.03	+1.20	North America Hedge Fund	1.15	+0.03	+1.15	Global Hedge Fund	1.10	+0.03	+1.10	Specialist Hedge Fund	1.05	+0.03	+1.05
Asia Pacific Commodity Fund	1.35	+0.03	+1.35	Europe Commodity Fund	1.15	+0.02	+1.15	North America Commodity Fund	1.10	+0.02	+1.10	Global Commodity Fund	1.05	+0.02	+1.05	Specialist Commodity Fund	1.00	+0.02	+1.00
Asia Pacific Real Estate Fund	1.25	+0.02	+1.25	Europe Real Estate Fund	1.10	+0.01	+1.10	North America Real Estate Fund	1.05	+0.01	+1.05	Global Real Estate Fund	1.00	+0.01	+1.00	Specialist Real Estate Fund	0.95	+0.01	+0.95
Asia Pacific Infrastructure Fund	1.30	+0.03	+1.30	Europe Infrastructure Fund	1.15	+0.02	+1.15	North America Infrastructure Fund	1.10	+0.02	+1.10	Global Infrastructure Fund	1.05	+0.02	+1.05	Specialist Infrastructure Fund	1.00	+0.02	+1.00
Asia Pacific Natural Resources Fund	1.35	+0.03	+1.35	Europe Natural Resources Fund	1.20	+0.03	+1.20	North America Natural Resources Fund	1.15	+0.03	+1.15	Global Natural Resources Fund	1.10	+0.03	+1.10	Specialist Natural Resources Fund	1.05	+0.03	+1.05
Asia Pacific Technology Fund	1.40	+0.04	+1.40	Europe Technology Fund	1.25	+0.04	+1.25	North America Technology Fund	1.20	+0.04	+1.20	Global Technology Fund	1.15	+0.04	+1.15	Specialist Technology Fund	1.10	+0.04	+1.10
Asia Pacific Healthcare Fund	1.35	+0.03	+1.35	Europe Healthcare Fund	1.20	+0.03	+1.20	North America Healthcare Fund	1.15	+0.03	+1.15	Global Healthcare Fund	1.10	+0.03	+1.10	Specialist Healthcare Fund	1.05	+0.03	+1.05
Asia Pacific Financial Services Fund	1.30	+0.03	+1.30	Europe Financial Services Fund	1.15	+0.02	+1.15	North America Financial Services Fund	1.10	+0.02	+1.10	Global Financial Services Fund	1.05	+0.02	+1.05	Specialist Financial Services Fund	1.00	+0.02	+1.00
Asia Pacific Media Fund	1.25	+0.02	+1.25	Europe Media Fund	1.10	+0.01	+1.10	North America Media Fund	1.05	+0.01	+1.05	Global Media Fund	1.00	+0.01	+1.00	Specialist Media Fund	0.95	+0.01	+0.95
Asia Pacific Telecommunications Fund	1.30	+0.03	+1.30	Europe Telecommunications Fund	1.15	+0.02	+1.15	North America Telecommunications Fund	1.10	+0.02	+1.10	Global Telecommunications Fund	1.05	+0.02	+1.05	Specialist Telecommunications Fund	1.00	+0.02	+1.00
Asia Pacific Energy Fund	1.35	+0.03	+1.35	Europe Energy Fund	1.20	+0.03	+1.20	North America Energy Fund	1.15	+0.03	+1.15	Global Energy Fund	1.10	+0.03	+1.10	Specialist Energy Fund	1.05	+0.03	+1.05
Asia Pacific Environmental Fund	1.30	+0.03	+1.30	Europe Environmental Fund	1.15	+0.02	+1.15	North America Environmental Fund	1.10	+0.02	+1.10	Global Environmental Fund	1.05	+0.02	+1.05	Specialist Environmental Fund	1.00	+0.02	+1.00
Asia Pacific Socially Responsible Fund	1.25	+0.02	+1.25	Europe Socially Responsible Fund	1.10	+0.01	+1.10	North America Socially Responsible Fund	1.05	+0.01	+1.05	Global Socially Responsible Fund	1.00	+0.01	+1.00	Specialist Socially Responsible Fund	0.95	+0.01	+0.95
Asia Pacific Sustainable Development Fund	1.30	+0.03	+1.30	Europe Sustainable Development Fund	1.15	+0.02	+1.15	North America Sustainable Development Fund	1.10	+0.02	+1.10	Global Sustainable Development Fund	1.05	+0.02	+1.05	Specialist Sustainable Development Fund	1.00	+0.02	+1.00
Asia Pacific Human Rights Fund	1.25	+0.02	+1.25	Europe Human Rights Fund	1.10	+0.01	+1.10	North America Human Rights Fund	1.05	+0.01	+1.05	Global Human Rights Fund	1.00	+0.01	+1.00	Specialist Human Rights Fund	0.95	+0.01	+0.95
Asia Pacific Gender Equality Fund	1.30	+0.03	+1.30	Europe Gender Equality Fund	1.15	+0.02	+1.15	North America Gender Equality Fund	1.10	+0.02	+1.10	Global Gender Equality Fund	1.05	+0.02	+1.05	Specialist Gender Equality Fund	1.00	+0.02	+1.00
Asia Pacific Anti-Corruption Fund	1.25	+0.02	+1.25	Europe Anti-Corruption Fund	1.10	+0.01	+1.10	North America Anti-Corruption Fund	1.05	+0.01	+1.05	Global Anti-Corruption Fund	1.00	+0.01	+1.00	Specialist Anti-Corruption Fund	0.95	+0.01	+0.95
Asia Pacific Transparency Fund	1.30	+0.03	+1.30	Europe Transparency Fund	1.15	+0.02	+1.15	North America Transparency Fund	1.10	+0.02	+1.10	Global Transparency Fund	1.05	+0.02	+1.05	Specialist Transparency Fund	1.00	+0.02	+1.00
Asia Pacific Accountability Fund	1.25	+0.02	+1.25	Europe Accountability Fund	1.10	+0.01	+1.10	North America Accountability Fund	1.05	+0.01	+1.05	Global Accountability Fund	1.00	+0.01	+1.00	Specialist Accountability Fund	0.95	+0.01	+0.95
Asia Pacific Integrity Fund	1.30	+0.03	+1.30	Europe Integrity Fund	1.15	+0.02	+1.15	North America Integrity Fund	1.10	+0.02	+1.10	Global Integrity Fund	1.05	+0.02	+1.05	Specialist Integrity Fund	1.00	+0.02	+1.00
Asia Pacific Ethics Fund	1.25	+0.02	+1.25	Europe Ethics Fund	1.10	+0.01	+1.10	North America Ethics Fund	1.05	+0.01	+1.05	Global Ethics Fund	1.00	+0.01	+1.00	Specialist Ethics Fund	0.95	+0.01	+0.95
Asia Pacific Governance Fund	1.30	+0.03	+1.30	Europe Governance Fund	1.15	+0.02	+1.15	North America Governance Fund	1.10	+0.02	+1.10	Global Governance Fund	1.05	+0.02	+1.05	Specialist Governance Fund	1.00	+0.02	+1.00
Asia Pacific Leadership Fund	1.25	+0.02	+1.25	Europe Leadership Fund	1.10	+0.01	+1.10	North America Leadership Fund	1.05	+0.01	+1.05	Global Leadership Fund	1.00	+0.01	+1.00	Specialist Leadership Fund	0.95	+0.01	+0.95
Asia Pacific Innovation Fund	1.30	+0.03	+1.30	Europe Innovation Fund	1.15	+0.02	+1.15	North America Innovation Fund	1.10	+0.02	+1.10	Global Innovation Fund	1.05	+0.02	+1.05	Specialist Innovation Fund	1.00	+0.02	+1.00
Asia Pacific Creativity Fund	1.25	+0.02	+1.25	Europe Creativity Fund	1.10	+0.01	+1.10	North America Creativity Fund	1.05	+0.01	+1.05	Global Creativity Fund	1.00	+0.01	+1.00	Specialist Creativity Fund	0.95	+0.01	+0.95
Asia Pacific Imagination Fund	1.30	+0.03	+1.30	Europe Imagination Fund	1.15	+0.02	+1.15	North America Imagination Fund	1.10	+0.02	+1.10	Global Imagination Fund	1.05	+0.02	+1.05	Specialist Imagination Fund	1.00	+0.02	+1.00
Asia Pacific Vision Fund	1.25	+0.02	+1.25	Europe Vision Fund	1.10	+0.01	+1.10	North America Vision Fund	1.05	+0.01	+1.05	Global Vision Fund	1.00	+0.01	+1.00	Specialist Vision Fund	0.95	+0.01	+0.95
Asia Pacific Inspiration Fund	1.30	+0.03	+1.30	Europe Inspiration Fund	1.15	+0.02	+1.15	North America Inspiration Fund	1.10	+0.02	+1.10	Global Inspiration Fund	1.05	+0.02	+1.05	Specialist Inspiration Fund	1.00	+0.02	+1.00
Asia Pacific Knowledge Fund	1.25	+0.02	+1.25	Europe Knowledge Fund	1.10	+0.01	+1.10	North America Knowledge Fund	1.05	+0.01	+1.05	Global Knowledge Fund	1.00	+0.01	+1.00	Specialist Knowledge Fund	0.95	+0.01	+0.95
Asia Pacific Wisdom Fund	1.30	+0.03	+1.30	Europe Wisdom Fund	1.15	+0.02	+1.15	North America Wisdom Fund	1.10	+0.02	+1.10	Global Wisdom Fund	1.05	+0.02	+1.05	Specialist Wisdom Fund	1.00	+0.02	+1.00
Asia Pacific Understanding Fund	1.25	+0.02	+1.25	Europe Understanding Fund	1.10	+0.01	+1.10	North America Understanding Fund	1.05	+0.01	+1.05	Global Understanding Fund	1.00	+0.01	+1.00	Specialist Understanding Fund	0.95	+0.01	+0.95
Asia Pacific Compassion Fund	1.30	+0.03	+1.30	Europe Compassion Fund	1.15	+0.02	+1.15	North America Compassion Fund	1.10	+0.02	+1.10	Global Compassion Fund	1.05	+0.02	+1.05	Specialist Compassion Fund	1.00	+0.02	+1.00
Asia Pacific Kindness Fund	1.25	+0.02	+1.25	Europe Kindness Fund	1.10	+0.01	+1.10	North America Kindness Fund	1.05	+0.01	+1.05	Global Kindness Fund	1.00	+0.01	+1.00	Specialist Kindness Fund	0.95	+0.01	+0.95
Asia Pacific Generosity Fund	1.30	+0.03	+1.30	Europe Generosity Fund	1.15	+0.02	+1.15	North America Generosity Fund	1.10	+0.02	+1.10	Global Generosity Fund	1.05	+0.02	+1.05	Specialist Generosity Fund	1.00	+0.02	+1.00
Asia Pacific Gratitude Fund	1.25	+0.02	+1.25	Europe Gratitude Fund	1.10	+0.01	+1.10	North America Gratitude Fund	1.05	+0.01	+1.05	Global Gratitude Fund	1.00	+0.01	+1.00	Specialist Gratitude Fund	0.95	+0.01	+0.95
Asia Pacific Optimism Fund	1.30	+0.03	+1.30	Europe Optimism Fund	1.15	+0.02	+1.15	North America Optimism Fund	1.10	+0.02	+1.10	Global Optimism Fund	1.05	+0.02	+1.05	Specialist Optimism Fund	1.00	+0.02	+1.00
Asia Pacific Positivity Fund	1.25	+0.02	+1.25	Europe Positivity Fund	1.10	+0.01	+1.10	North America Positivity Fund	1.05	+0.01	+1.05	Global Positivity Fund	1.00	+0.01	+1.00	Specialist Positivity Fund	0.95	+0.01	+0.95
Asia Pacific Hope Fund	1.30	+0.03	+1.30																











## MARKET REPORT

## UK equities ignore early sell-off on Wall Street

By Steve Thompson,  
UK Stock Market Editor

UK shares successfully fought off the effects of a weak opening by Wall Street and managed to end the session with good gains across the board, still sustained by hopes of a further reduction in UK interest rates before the next general election.

The bullish feeling about domestic interest rates continued to filter through from Wednesday's summer economic bulletin issued by the UK Treasury. That showed a downwards revision of gross domestic product growth and an increase in the current year's public sector borrowing requirement.

The FT-SE 100 index ended the session a net 13.5 higher at 3,765.8, some 5 points above its level before the 115-point sell-off on Wall Street last Friday evening.

There was no real enthusiasm surrounding the market's second-liners, where the FT-SE Mid 250 index showed a 4.8 gain at 4,352.3. London dealers acknowledged the market's resilience in the face of Wall Street's latest jittery performance, which came in the wake of a steep slide in Motorola shares. They dropped 20 per cent shortly after the New York opening following poor second-quarter figures, released late on Tuesday.

"The market feels fine at the moment, but that is not to say we will not mirror any further bouts of weakness on Wall Street," was the view of one head trader.

Another senior dealer, at one of the European securities houses, said the performance of global equities would be determined by bonds, which maintained their recent good showing.

Treasury bonds were around a quarter of a point higher not long after US markets opened yesterday, while gilts made steady, if sedate, progress during the day.

The Dow Jones Industrial Average, burdened by the retreat in technology stocks, was down more

than 30 points within minutes of the start of trading in the US and off 35 points an hour after London closed.

The real disappointment for traders came in the continuing low level of genuine activity. Turnover at 6pm was 725.9m shares, with non-FT-SE 100 issues accounting for around 55 per cent of that figure.

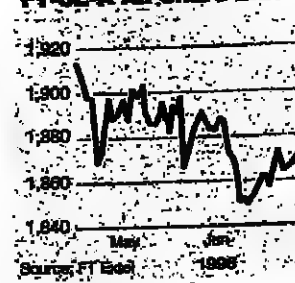
Volume was inflated by 58m shares traded in Graystones, one of the penny stocks. But there was some aggressive two-way trading in a number of the large-capitalisation stocks, in which the institutions held substantial stakes.

Hanson was a case in point, with in excess of 36m shares changing

hands as the big argument over valuations pre- and post-demerger continued to rage. The conglomerate's shares drifted back again as the market fretted over the possibility of big US shareholdings being sold into an unwilling market.

The cellular phone stocks were also heavily traded, and weakened in the light of Motorola's results. Dixons, the high street retailer, was the best performer in the FT-SE 100 after delighting the market with a 20 per cent increase in the dividend total, while GKN, the export giant, was given a lift by a rising group, in which the institutions held substantial stakes. The US brokerage, whose global legions of salesmen marketed a big buy story.

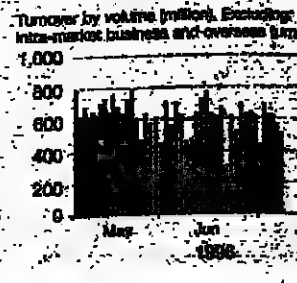
## FT-SE All-Share Index



Index	Value	Change
FT-SE 100	3765.8	+13.5
FT-SE Mid 250	4352.3	+4.8
FT-SE All-Share	1874.21	+5.02
FT-SE All-Share yield	3.83	3.84

Best performing sectors	Change
1 Life Assurance	+1.3
2 Paper, Pkg & Printing	+1.2
3 Telecommunications	+0.9
4 Engineering Vehicles	+0.8
5 Insurance	+0.8

## Equity shares traded



FT Ordinary Index	Value	Change
FT-SE A Non Pte	2768.2	+12.4
FT-SE 100 Put Jul	3764.0	+13.0
10 yr Gilt yield	7.89	7.96
Long gilts yield ratio	2.18	2.18

Worst performing sectors	Change
1 Tobacco	-0.9
2 Building Mts & Merchs	-0.6
3 Leisure & Hotels	-0.5
4 Building & Construction	-0.3
5 Banker Merchant	-0.3

Broker  
move hits  
Hanson

A bullish note from NatWest Securities sparked a bruising tug of sentiment at top conglomerate Hanson and turned in the stock jumped to 36m shares.

The broker reiterated "robust" advice to clients and lowered its trading valuation for the shares to 153p. This compares with valuations of 200p and above by some leading brokers.

The stock, which has lagged behind the market by 20 per cent since demerger plans were announced in January, finished the day 2 1/2 lower at 185p, where the yield is now pressed right up against the 9 per cent level.

There were also worries yesterday that, given Wall Street's recent wobbles, the continued drain on sentiment could shortly destabilise Hanson's US shareholder base. This extends to some 30 per cent of the company.

NatWest's valuation downgrade stems from weak trading and cashflow, a fall in UK electricity valuations and a rising tax charge at chemicals group Quantum.

The Hanson selling sparked suggestions of switching into Tomkins, which moved forward 7 to 26p in turnover of 5.4m, making a three-day gain of more than 6 per cent.

The market's blue touch paper was lit by an intriguing statement from Shell Trans-

port early yesterday.

The company said it would make an announcement concerning its chemicals business at 3pm. It has been known for some time that Shell is seeking to address problems in its chemicals operations and the statement led to a flurry of speculation that encompassed heavy cost-cutting and the possible demerger of the whole chemicals arm. There was also talk of a significant deal with BASF, of Germany.

The shares shot forward to record a gain of more than 18p, at that point the biggest rise in the Footsie. However, the announcement that Shell had signed a non-binding letter of intent to form a worldwide petroleum additives joint venture with Exxon Chemicals proved disappointing. The stock slipped back to finish only 5 1/2 ahead at 94p after substantial volumes of more than 8m shares.

Mr John Toalster of SGST commented: "This is a useful development but it is not major. It only represents 5 per cent of Shell Chemicals' turnover last year."

Merrill Lynch issued a hard-hitting buy note on engineering leader GKN and the stock advanced 28 to an all-time high of 103p.

Merrill, a long term buyer of the stock, expects strong results next month when the interim figures emerge, and moods the possibility of profit upgrades later in the year.

It predicts positive news flow on orders, notably from Westland, and argues that GKN is now more than ever a strongly contra-cyclical, core holding.

The broker also reminds clients that GKN has had a share

split under consideration for some time. "With the stock comfortably above £10, this could happen at any moment," said Merrill analyst Mr Adam Collins.

GKN is relatively tightly held, and yesterday's 1.4m turnover was well above average. A share split is seen as making the stock more marketable and less volatile.

A drop in second-quarter profits from Motorola, the US high-tech giant, which partly blamed poor mobile phone handset trading for its slack earnings output, hit sentiment at Vodafone and Orange.

Combined volume for the two was 38m shares, with Vodafone off a penny at 236p, and Orange down 3/4 at 204p.

BT continued to rebound. The shares spiked higher once Wall Street started trading, and the stock closed 6 1/4 up at 351p in 8 1/2 trading.

Takeover speculation com-

plined with a broker recommendation to push East Midlands Electricity 15 higher to 570p.

One of the company's own brokers, ABN Amro Hoare Govett, reiterated its buy note on the stock, arguing that it was cheap at current levels and could rise 10 per cent from yesterday's opening price. Additionally, Hoare highlighted the company's fundamental attractions, with or without a corporate approach.

However, there was also a return of bid hopes, which focused on Houston Industries, of the US, making an offer. East Midlands said it had not received a bid.

General Accident and Commercial Union rose 7 to 642p and 4 to 567p respectively as Merrill Lynch reiterated its buy stance on the two stocks.

Analyst Mr Steven Bird said the two companies had the strongest life operations in the sector. The broker also raised

its recommendation on the composite sector as a whole to "neutral" from "underweight".

Leisure group Rank Organisation was the worst performer in the Footsie yesterday, falling 11 to 482p as the stock reacted to a profits downgrade from ABN Amro Hoare Govett.

The broker said the stock is "overvalued" and published a detailed note designed to preempt the results of the strategic review, due to be announced next month along with interim figures. Hoare downgraded current year profit expectations by 18m to 243m.

Dixons rose 14 1/2 to 530p following annual results at the higher end of forecasts.

Analysts were impressed by sales for the first 10 weeks of the current year. Several upgraded forecasts, with Panmure Gordon, for example, increasing its estimate from 213m to 218m, excluding property disposals.

Kingsfisher improved 6 to 641p on the back of Dixons' figures. The group has also impressed analysts with a presentation on plans for Christmas.

Analysts were not impressed by Storehouse, which said at its annual meeting that gross margins were being maintained, not improved. Storehouse fell 6 to 31p.

Building materials leader Wacoil closed at the bottom end of the Footsie rankings with a decline of more than 2 per cent. The shares came off 10 at 442p, but volume was modest and traders said there were no obvious stories in circulation.

The group meets analysts for a trading round-up early next month, and recent feedback from the sector suggests that trading is proceeding smoothly enough. But Wolesey gets 40 per cent of operating profits from North America where some analysts fear a rise in interest rates.

In contrast, Radlax, with its

## FINANCIAL TIMES EQUITY INDICES

	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1	Jul 0	Jul -1	Jul -2	Jul -3	Jul -4	Jul -5	Jul -6	Jul -7	Jul -8	Jul -9	Jul -10
Ordinary Share	3765.8	3752.3	3746.3	3741.1	3735.9	3730.7	3725.5	3720.3	3715.1	3710.0	3704.8	3699.6	3694.4	3689.2	3684.0	3678.8	3673.6	3668.4	3663.2	3658.0	3652.8
Ord. div. yield	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83	3.83
P/E ratio	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40
P/E ratio net	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40	18.40
Ordinary Share Index	3765.8	3752.3	3746.3	3741.1	3735.9	3730.7	3725.5	3720.3	3715.1	3710.0	3704.8	3699.6	3694.4	3689.2	3684.0	3678.8	3673.6	3668.4	3663.2	3658.0	3652.8

Ordinary Share Index also includes: high 3683.1 (1994/95); low 3642.2 (1994/95); Date: 10/07/96.

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**Sincere Navigation Corporation**  
(Incorporated as a company limited by shares in Taiwan, Republic of China)

**NOTICE**  
to the holders of the outstanding  
**Sincere Navigation Corporation**  
(the "Company")  
**U.S. \$36,000,000**  
**3.75 per cent. Bonds due 2003**  
(the "Bonds")

NOTICE IS HEREBY GIVEN to the holders of the Bonds that the Annual General Meeting of the Company by a resolution dated 25th May, 1996, approved the issue of 18,796,730 shares of the Company's Common Stock for free distribution to shareholders as a dividend, which has been approved by the Securities and Exchange Commission of the Ministry of Finance, the Republic of China, effective 26th June, 1996. The Board of Directors has fixed 25th July, 1996 as the record date for the determination of the shareholders entitled to receive such dividend and free distribution. Pursuant to the provisions of the Indenture constituting the Bonds, the Conversion Price of the Bonds has been adjusted as a result of the above issue from NT\$35.00 to NT\$32.17 effective 30th July, 1996 (Republic of China time).

11th July, 1996  
Sincere Navigation Corporation

**The Peoples Construction Bank of China**  
**US\$70,000,000 Tranche A**  
**US\$70,000,000 Tranche B**  
**US\$70,000,000 Tranche C**  
**US\$70,000,000 Tranche D**  
**US\$70,000,000 Tranche E**  
**US\$70,000,000 Tranche F**  
**US\$70,000,000 Tranche G**  
**US\$70,000,000 Tranche H**  
**US\$70,000,000 Tranche I**  
**US\$70,000,000 Tranche J**  
**US\$70,000,000 Tranche K**  
**US\$70,000,000 Tranche L**  
**US\$70,000,000 Tranche M**  
**US\$70,000,000 Tranche N**  
**US\$70,000,000 Tranche O**  
**US\$70,**







10

**Intercontinental Securities**

Have you  
Gain the edge over  
working day. Hand  
centres of Finance  
Intercontinental Se  
Financial Ser

Gain the edge over your  
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45	130	130	+	+
46	130	130	+	+
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# Dominant position under challenge

**I**ndia's third largest state, its undisputed financial centre and industrial powerhouse, has been taking a few knocks to its pride lately. "Is Maharashtra Losing Out?" was the coverline on a recent issue of Business India, the country's leading business magazine.

The story was pegged on the fact that the state suddenly appeared to have missed out on a clutch of new investment megaprojects. It was backed up by figures from the authoritative and independent Centre for Monitoring the Indian

The government subsequently renegotiated the Dahol project, which is now awaiting central government approval. And state leaders dispute the CMIE figures, claiming there are more projects

There is no disputing Maharashtra's present industrial pre-eminence. The state's 80m people, less than 10 per cent of India's population, produce 23 per cent of the country's output. The state's chemicals, metals, rubber and plastic industries each account for more than a third of India's total production. Its citizens pay 40 per cent of all the income tax collected in India.

Moreover, Maharashtra's government, and certainly its bureaucracy, is highly esteemed for its efficiency and pro-business orientation. The state's finances are sounder than almost any other Indian state and its finance ministry has in the last year quietly reformed its sales tax—the primary source of self-generated revenue in all Indian states—into a value-added tax which



**Pictures:** Tony Anderson

**L**same view, according to a comprehensive recent poll of 150 of India's biggest companies compiled by Business Today magazine and Gallup. Maharashtra topped the list of investor-friendly states, well ahead of rivals Gujarat, Tamil Nadu and Karnataka.

Mr Jamshyd Godrej, managing director of Godrej & Boyce, one of India's biggest privately-held manufacturing groups.

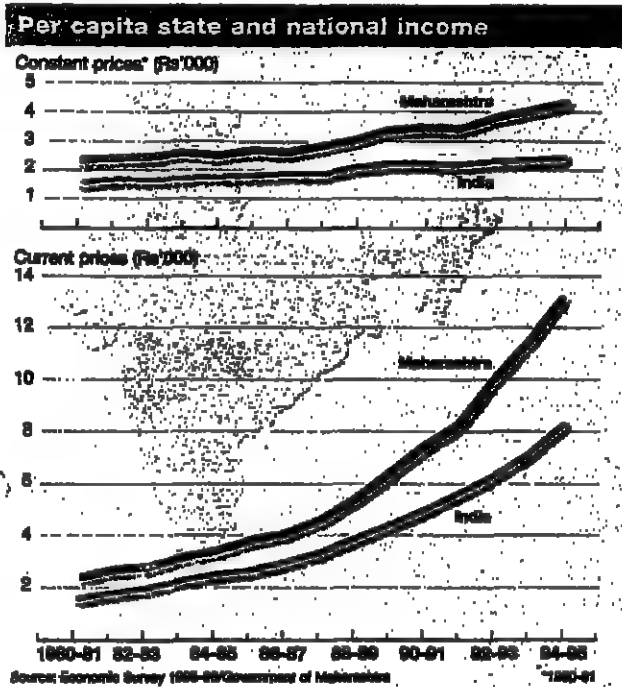
If there is a growing trend, bankers and businessmen say it is towards industrial investments moving away from the concentration around Greater Bombay, perhaps to developing centres elsewhere in the state, or often out of the state altogether. Though it is not all one-way traffic. Pune, for

- **Politics:** the role of the Shiv Sena party
- **Industry:** ambitious plans to preserve lead
- **Scams:** the activities of the state's industrial and investment corporation Page 2
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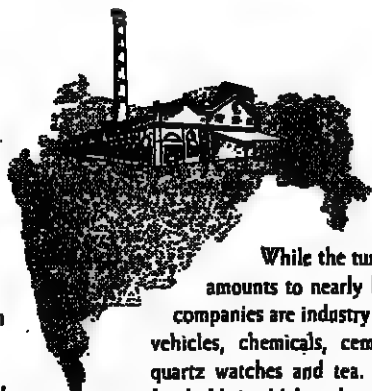
many business leaders suggest the government has been slower to match the policy with practice. "They speak about making a single window for investment approvals," says one businessman. "But they still have a long way to go before this single window is not just an additional window."

**Continued on Page VI**

Continued on Page VI



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## II MAHARASHTRA

Politics by Shiraz Sidhva

## Tiger's fangs are blunted

Shiv Sena's nationalism seems to have been tempered by its accession to power

Power seems to have blunted the fangs of the ferocious tiger that is the emblem of the Shiv Sena party. The organisation, which was notorious for its rabble-rousing nationalism, has since its accession to power in March 1995 in alliance with the Hindu right-wing Bharatiya Janata Party.

"We have been given a great responsibility by the people, and we are working very hard

to fulfil their expectations, otherwise they will not vote us back to power," says Mr Subhash Desai, ideology and general secretary of the Shiv Sena. "The law and order problem has improved substantially since we took over the state, and our chief, Mr Bal Thackeray made it clear that there is a task for each and every Shiv Sena (Shiv Sena member) to perform."

Mr Thackeray, a former cartoonist and journalist, is an unlikely patron saint for India's most industrialised state. There was a time when this self-proclaimed Hitler admirer posed for photographs under a tiger baring its fangs.

Today, the founder of the Shiv Sena, who claims to run the state government "by remote control" (he has no for-

mal office) stares benignly from laminated photographs which adorn all the government offices in Maharashtra, the state government seat.

The Shiv Sena (literally, army of Shiva), which in the 17th century fought the Maratha king Aurangzeb, was founded in the state in 1966 to galvanise unemployed youth in Maharashtra to protest against "outsiders" (mostly Indians from the southern states of Tamil Nadu, Kerala and Karnataka) taking jobs in Bombay.

The organisation was started primarily as an anti-communist movement, to combat the strong trade unions that controlled the city's textile mills, railways and bus services.

The union leaders were mostly from south India, and the Sena was convinced that

they favoured employing youth from their states, thereby taking jobs away from the locals.

Mr Thackeray, who changed his name to that of the English writer he admires, had set back and smacked in December 1982 while his followers targeted Muslims in Bombay's slums and the city burned following the destruction of a mosque by Hindu fanatics in Ayodhya. "To hell with secularism if it is at the cost of the Hindus," he said. He insisted his men were only responding to the provocation by Muslims. "If you slap me, why should I not hit back?" he asked. "I am no Jesus Christ."

But now Mr Thackeray exerts his cadres to go into the villages and do such good work for the people that the Shiv Sena can slowly gain enough strength to rule at the central level, along with its ally, the BJP, which won the largest number of seats in national elections held in April and May, but fell short of the majority required to stay in government. Even the Muslims, who were apprehensive when Shiv Sena wrested power in the state after 40 years of



Bal Thackeray, unlikely patron saint for India's most industrialised state

Congress rule, admit that the law and order situation in the state has improved. "Our cadres are more responsible and we are being very cautious to ensure that every citizen in the state feels safe," says Mr Desai. "But," he adds hurriedly, "that does not mean we will ever tolerate injustice against the Hindus."

Political expediency has forced the Shiv Sena to be more pragmatic about foreign

investment and liberalisation

While the government sent conflicting signals to industry when it scrapped the controversial Earm power project which had been cleared by the previous Congress state government, it has firmly put its ally, the BJP, in its place by insisting that foreign investment is welcome in any sector, whether it is for cold drinks, chewing gum, or potato chips. A powerful lobby in the BJP has been insisting that foreign investors should not be allowed into "low priority" sectors such as fast foods or luxury items. "We would like to achieve overall growth and prosperity, and for that, we are clear that we have to take advantage of every source of help, whether it is from home or abroad," says Mr Desai. "There is no doubt that we are nationalistic, but our doors are open to international co-operation for mutual benefit, as long as we don't sacrifice our sovereignty. Shivaji, our saint, encouraged trade with the British, French and Dutch three centuries ago, but warned his lieutenants that they should not be allowed political power. We feel the same towards foreigners."

Industrialists, who initially feared that the new govern-

ment would rob Maharashtra of the political stability that was its biggest asset, have no doubts that the Shiv Sena government is now committed to free market reform.

"Nobody's asking questions about stability any more," says Mr Anand Mahindra, deputy managing director of the Mahindra group, the tractor, vehicle, steel and engineering company which has based most of its operations in the state. "The biggest gift of this government has been that it has not in any way eroded that stability."

Shiv Sena's critics say that the tiger has only temporarily been caged, and that the organisation's exclusionist raison d'être is bound to surface sooner or later. "The ministers still raise their hands, Third Reich style, and salute each other with 'Jai Maharashtra' (Hail Maharashtra)," says a senior trade union leader in Bombay. "They still maintain that Maharashtra is only for the Maharashtrians. They have already started imposing moral values on us, closing down cabarets and banning dancing girls after midnight. It is difficult to forget the violence they have perpetrated in the state even if they do support a free-market economy."

## PROFILE Sloom

## Scope may be too wide

One of the joints in Maharashtra's machinery to boost industrial growth and improve infrastructure is Sloom - the state industrial and investment corporation of Maharashtra - which in 30 years has matured into a peculiar hybrid of merchant bank, industrial co-ordinating agency and consultancy.

Created in 1966 as a development arm of the Maharashtra government, Sloom was designed as a pioneering corporatised agency to blend investment advice and package incentives for the state's more backward areas. Two years ago the state government floated 51 per cent of Sloom's stock to give the agency commercial freedom. Since then, it has put itself in the forefront of the state's drive to draw private investment into infrastructure. In the last year alone, Sloom has taken a leading role in everything from Maharashtra's road and ports privatisation, to forging a new joint venture intra-state airline.

The question is whether this multi-faceted agency can prosper on a wholly commercial basis, pushed on one hand by competition from India's numerous and bigger industrial lenders, such as the giant Industrial Development Bank of India or ICICI, which are both based in Bombay, and pulled on the other by its persisting mandate to pursue state government policies.

The newly floated Sloom has made a promising enough start. For the last reported year, the corporation, which has an asset base of Rs7.35bn, returned a net profit of Rs270m, up 45 per cent on 1993-94, largely from term

lending to smaller state-based companies in chemicals, plastics, metals, engineering and most of the state's other core industrial sectors.

Last year Sloom sanctioned loans totalling Rs5.3bn, disbursing Rs4.1bn, in excess of its 1994-95 target of 106 and 123 per cent on a year earlier. Most term lending is short or medium term at market interest rates. "We are the first such body of this type, the first to come out with packages of incentives, the first to be privatised, and the most profitable," says an unimpressed Mr Vinayak Mhetras, a Sloom industrial promotion manager.

But Sloom is also becoming a diversified agency, raising the question of whether it can successfully manage the huge recent broadening of its scope.

Term lending to industry traditionally accounted for 60 per cent of Sloom's income, much of it project lending. Last year, however, such lending accounted for just under half of income, the remainder coming from short-term lending, leasing, equipment financing and a limited number of direct equity investments.

Aside from lending, the agency offers Indian and foreign investors help on projects, but with an emphasis on guiding them towards less developed parts of the state, relying on sales tax exemption incentives for locating in more "backward" areas, but also through its close inherited links with both government and the Maharashtra Industrial Development Corporation, the state-run body which establishes industrial zones in such regions. "We've had quite a bit of success taking multinationals and big Indian

companies into places like Nagpur and Amravati," says Mr Mhetras.

But Sloom's scope is broadening. This year it is co-ordinating the first bid rounds for privatisation of seven minor ports. Recently, it also took an equity stake with the government in a new Maharashtra State Road Development Corporation, designed to oversee the privatisation of a series of big highway projects. In mid-August, Sloom in a joint venture with a Mumbai undisclosed private company will start up Maharashtra Airways with a fleet of three aircraft to serve smaller but growing industrial centres.

Sloom's managers speak of "emerging to compete with the all-India financial institutions", such as IDBI, ICICI or SCIL, while also "creating its own niche". But the ambitious spread of its activities raises some eyebrows. Sloom's management is widely respected, but according to one Bombay banker: "There's a danger they've got too many fingers in too many pies - they may find there's a limit to how far they can leverage off their core activity, the lending."

There is also the potential strain between the government's developmental priorities and commercial imperatives. "The government has to realise Sloom is no longer their personal fiefdom - there's an innate tension between viability and the emphasis, for instance, on lending to companies setting up in 'designated growth areas', which often means places no-one really wants to invest."

Mark Nicholson

## Industrial policy by Shiraz Sidhva

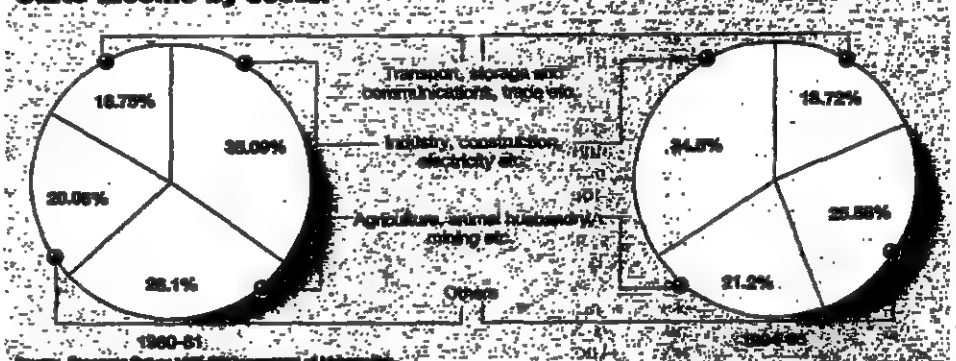
## A fast pace needed to keep up

The new government has ambitious plans to maintain the state's leading position

With Bombay, India's commercial and financial capital at its heart, Maharashtra continues to guard its position as India's most industrialised state. The state, with its long history of entrepreneurial activity, accounts for over 28 per cent of the country's gross industrial production.

With the best irrigation, power supply and communications network in the country, a large reservoir of skilled manpower and management personnel, and its proximity to ports and markets, Maharashtra has always been favoured by foreign investors, attracting foreign direct investment

## State income by sector



Source: Department of Industries, Government of Maharashtra

problem of inadequate infrastructure by developing nine industrial townships in the state. "The basic approach or mission statement of our policy is the empowerment of people at all levels," says Mr Ladhkar Datta, industries minister.

"We intend to do this by extending strong support to liberalisation, and providing infrastructure in developing regions in the state so that growth is not concentrated only in some areas, putting a strain on infrastructure. The private sector will be encouraged to participate in our developmental efforts, and the state will act as a facilitator, not a controller, with the simplification of procedures and more transparency."

"We will create centres of excellence in specific growth areas in the nine locations earmarked for development," says Mr Yashwant Bhava, industries development commissioner. "There is a shift in emphasis from the cities to these areas of development, so that industry can be dispersed throughout the state, instead of being concentrated in one or two regions and straining the infrastructure there."

Mr Datta says that the new state government is trying to "telescope the development of the past 33 years into the next three years." Its development corporations have acquired 33,000 hectares of land in 18 months, equal to the land acquired over the past three decades.

The industrial townships, situated near large towns, will span areas ranging from 2,000 to 7,000 hectares. Two locations at Buthori near Nagpur and Mahad near Rajgad will be ready this year; four more are expected to be developed by 1996, and the rest in five to seven years.

The townships will be financed by private sector and foreign investment participa-

tion, and bonds and loans from financial institutions such as the Industrial Development Bank of India. Other locations include Sinner (Nasik), Nandgaon Path (Amravati), Wambhondre (Amravati), Khashur (Nanded), Kagal Hatnargale (Kolhapur), Nivri Phatis (Ratnagiri), and Indapur near Pune.

The Shiv Sena-BJP government believes that as a result of the dispersal of industrial infrastructure, local employment will grow. The government plans to set up technical institutions to train potential employees in these areas.

It hopes to link small towns in every district in the state by giving incentives to private airlines. From August 15, an airline will connect Rajnagar, Jalgaon and Kolhapur districts. Private helicopter operators will be encouraged to venture into the state's vast hinterland, providing air links where none existed, and easing congestion on the roads.

Bombay, which houses a majority of large Indian and multinational companies, and accounts for 80 per cent of all stock market activity in India, will be promoted as an international financial centre.

"Time-wise, we are ideally placed between Tokyo, London and New York, and there is no reason why Bombay cannot become a powerful international financial centre," says Mr Datta. Since more than half of the city's 18.5m people live in slums, these areas will be "redeveloped and redeployed", according to the minister.

The state government has ambitious plans for road privatisation and the opening up of sea routes along the state's coastline. Eight of the state's 48 ports will be privatised. A comprehensive water-harvesting programme to utilise water resources in the optimum manner for irrigation, schemes is another important part of the state's industrial development. Power projects have been

accorded high priority. Apart from the controversial Earm power project at Dabhol, a 410MW project built by the Reliance group at Patanga is expected to go onstream by 1997. Speedy completion is being accorded to the development of infrastructure from tourism, and the building of airports and jetties.

State officials say that though the Shiv Sena-BJP government is keen to push reforms through, many delays are caused because of inadequate liberalisation at the centre. "We want to do a lot, but many things are beyond our control, with approvals and controls still with the central government, which does act as an impediment. For instance, all foreign exchange approvals are still needed from the centre, and Indian currency is not fully convertible. Impeding smooth foreign investment flows," says an official from the industries ministry.

"We are more consolidated, more focused in our approach to industrial development than the previous government," claims Mr Datta. "We don't say we will not allow foreign investment in this area or that; we have no such hang-ups. We welcome investment in any sector as long as it is within the law of the land," he says.

It remains to be seen how quickly Maharashtra's new industrial policy will be implemented. "Maharashtra is going to have to run to remain where it is in the race for foreign investment into India," concludes Mr Mahindra.

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## MAHARASHTRA III

■ Nasik: by Naazneen Karmali

## Centre on a roll

Agro-processing companies would be welcomed since agriculture is a key activity

Ford Motors' first Indian made Escort cars will roll out soon from factory in Nasik, a city located 170 kms from Bombay in western Maharashtra.

Preparing for launch day, Ford executives are working closely with their counterparts at Mahindra & Mahindra, a local vehicle manufacturer which is Ford's Indian partner. Mahindra's 800-acre factory site, of which 90 acres have been earmarked for the Escort project, is buzzing with activity. This finds its echo in downtown Nasik where shopping plazas have sprung up and billboards urge visitors to try the comforts of Nasik's newest hotels.

the Hindus where, according to the scriptures, the Hindu god Ram lived in exile for twelve years. Pilgrims come to take a dip in the holy river or immerse the ashes of their dead, providing a livelihood for the local priests.

But businessmen who drive in from Bombay - a nerve-racking, four-hour journey on a narrow road jammed with trucks - go directly to the large industrial estates on the outskirts. These began to be developed in the late 1960s when the state government identified Nasik as a potential industrial district and offered incentives such as tax rebates to attract investment.

Cramped for space in Bombay, companies that wanted to expand had no option but to look elsewhere. For many, the first choice was Pune which has become the second largest industrial city after Bombay. With overcrowding and ris-

employing more than 21,000 people. Many of these small enterprises are vendors to larger companies and Nima's 1,100 members include both big and small companies.

"This well-established network of suppliers is an added advantage for a company that decides to locate here," says Mr R.S. Dharwar, Nima's honorary secretary. He cites the example of Samsonite which has chosen Nasik as its manufacturing base because VIP Industries, a local luggage maker, has a large factory and vendor network there already.

Another recent entrant is Unilever which set up an ice cream factory last year at Sinar, Nasik's newest industrial zone. Spread over 250 hectares, Sinar is being expanded further by 700 hectares. These newcomers are diversifying Nasik's industrial base which consists mostly of engineering companies.

Mr Dharwar says that they would like more agro-processing companies since agriculture is a desirable activity in the region. Nasik is India's grape capital, accounting for 60 per cent of the country's total production. These are sold in local markets and exported. Nasik's farmers also grow onions and sugarcane and have recently discovered that the climate is suitable for strawberry cultivation.

Nasik's businessmen fear that rapid growth will pose problems if the existing infrastructure is not geared up. In the last decade, the city's population has doubled to over one million. Commuting between Nasik and Bombay is a nightmare by road and though there is a rail connection the trains are irregular. "A four-lane highway has been planned but no real work on it has begun. We must have a daily shuttle train to Bombay and also desperately need to be air linked to other cities," says Mr Dharwar.

Another problem companies face is recruiting skilled workers. Nasik has engineering colleges but lacks a technical training institute so companies have to train their workers on the shopfloor. Mr Dharwar says that Nima has asked the state government for help in setting up a specialised training institution.

■ Investment: by Mark Nicholson

## Other states catch up

Figures suggest that Maharashtra may no longer be top destination for investors

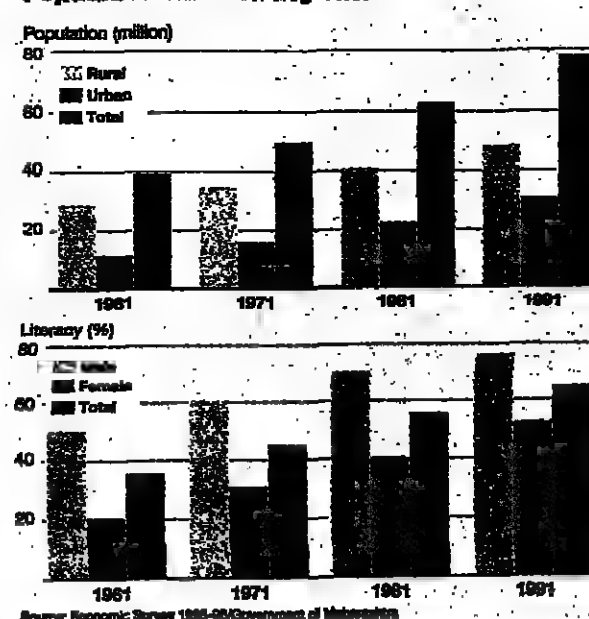
Calculating whether Maharashtra is still India's top investment destination has become a compelling pastime for some. The state's government is determined to combat a view recently gaining currency that its pre-eminence is on the slide. The view gained publicity and credence with the decisions of Mahindra & Mahindra, the otherwise Maharashtra-based vehicle maker, and Hyundai, the South Korean carmaker, to site big greenfield car plants in the northern state of Tamil Nadu,

rather than near the auto hubs of Bombay or Pune.

Then, as a bulletin from the Independent Maharashtra Economic Development Council put it, came the "shocking news" from the authoritative and also independent Centre for Monitoring the Indian Economy, that "Maharashtra has been uprooted from the number one position on the projected investments front and has tumbled to fourth place, behind its long-time rival, Gujarat and even Karnataka and Orissa". It was bad enough to fall second to its traditional rival and industrialised northern neighbour Gujarat in the investment virility stakes, but Orissa way out there in the east?

The CMIE figures for May

Population and literacy rate



1996 showed that in terms of projected investment - that is approved investment - Karnataka had approved Rs1,114bn worth of projects, Gujarat Rs1,034bn, Orissa Rs1,010bn.

and Maharashtra just Rs1,005bn worth.

Figures for projects "under implementation" were slightly more favourable, showing Maharashtra second only to Gujarat, which had Rs618bn worth of projects under way (15 per cent of the national total) against Maharashtra's Rs496bn (12 per cent). The CMIE concluded that industrial investments in Maharashtra peaked in 1993 and have slowed since.

Maharashtra's government claimed otherwise. Suggesting that the CMIE's conclusions, "like all data, should be read with a little care", it said its own and the central government's figures showed Maharashtra had received the most "Industrial Entrepreneur Memoranda" (declarations of investment intent) and actual Letters of Intent - 4,900 - of any state. Gujarat trailed, it said, with 4,082. The pace had not slowed, said the government, claiming Maharashtra led as a destination for foreign direct investment, with a total of 127 proposals, worth Rs22.5bn.

■ Dabhol power plant: by Mark Nicholson

## U-turn that saved the project

Generating capacity must be increased if demand is not to outstrip supply

When the \$2bn-plus Dabhol power project gets the final go-ahead from India's United Front government - expected as this went to press - it will have become about the most politically approved project in Indian history.

It will have been approved at state level by Maharashtra's former Congress party government and then by the present Bharatiya Janata party and Shiv Sena Hindu nationalist alliance. At national level, it will have received the nod from, successively, Congress, BJP and now United Front governments: together comprising virtually every party of significance in Indian politics.

This is a little ironic, given that it was one famous act of disapproval which has led to more than a year of delays, reviews and re-reviews: that of the present BJP-Shiv Sena government, which criticised the project during its election campaign early last year as too costly, "corruptly" negotiated and environmentally unfriendly. It then "scrapped" the project on being elected. No work has proceeded at the site, more than 100km south of Bombay, since last August.

"Dabhol" at that point became a national icon, on one side rallying economic nationalists suspicious of the post-liberalisation arrival of foreign investment, on the other a warning signal to foreign investors that four years into liberalisation, there remained deep-seated political fears in India about the whole reform process.

When it was "scrapped", a third of the power plant construction had been completed on what was then the first of India's "fast track" power projects to have negotiated central government financial guarantees and closed its financing package. Under pressure from local industrialists and a realisation that Maharashtra urgently needed the more than 2,000MW Dabhol would bring on stream, the BJP-Shiv Sena government made an abrupt U-turn, offering to renegotiate the project.

This it did, with a panel of power experts commissioned by the state government and Dabhol agreeing to a revised formula which would cut the project's overall cost to \$2.5bn from \$4.8bn, the power tariff to Rs1.96 a unit of power from Rs2.40 and expand the net capacity to 2,184MW from an initially envisaged 2,018MW.

The cost cuts came mainly from a \$300m fall in generation equipment prices, part of a global trend over the period. The tariff cuts were made possible partly by spreading costs over the

expanded plant's output. The \$600m cost of a LNG regasification plant was also shifted from being originally a capital cost to be covered under variable costs. Otherwise, Enron executives say, the project remains essentially as first agreed by the later deposed Congress government of Mr Shrawad Pawar back in 1994-95.

Once approval is granted by New Delhi, Enron believes the first naphtha/diesel-fuelled 740MW phase of the project could be commissioned within 30 months. Commissioning of the full 2,184MW plant, which would then be fuelled by imported liquefied natural gas, is envisaged by 2000.

The financing for Dabhol, a project led by Enron Corporation, the US energy group, with Bechtel and GE of the US as equity partners, remains in place and the state government is confident only slight delays remain, before work can restart. "Central government has cleared it," says Mr Dinesh Afzalpurkar, the state's chief secretary. "It's only the procedure that's taking time - a formality."

For Maharashtra, one of the few states to have reliable power for its industry, the project is the most advanced of several that are intended to boost power generating capacity from 11,800MW towards a goal of 21,000MW by 2001.

Last year power supplies rose to match demand increases of more than 11 per cent, but keeping pace with the demand will depend on Dabhol coming on stream as scheduled, along with commissioning of further megaprojects. Next in line and awaiting clearance of their power purchase agreements are a 1,082MW project from Nippon Denro Ispat, the Indian steel and engineering group with GEC of the UK, and a 410MW plant to be developed by Reliance, India's biggest corporation.

The Maharashtra State Electricity Board foresees a total of Rs600bn in power investments to reach its capacity goal for the next five or more years.

However, the Dabhol project may face further hurdles. Since May 1, under the agreement with Enron, the state government has been bearing project suspension costs of more than \$200,000 a day. These arise partly from legal costs, interest charges, cost escalations and the costs arising from the suspension of work to the hundreds of sub-contractors to the project - India's biggest single foreign investment project to date. Bechtel, which will build the plant, alone has more than 800 sub-contractors. Negotiations on how this cost is to be subsumed have yet to be broached, and they may prove thorny. Mr Gopinath Munde, the power minister, suggested last month that the state government may have "means" to avoid having to make the payments.

Agriculture		
Sown area in millions of hectares		
	Maharashtra	Nasik
Net sown	16.2	1.2
Foodgrains	13.9	1.0
Cotton	2.7	0.7
Sugarcane	427.5	1.5

Since early 1995, three have opened their doors for business, of which one is a Quality Inn franchise and another an executive category hotel owned by the Taj group. Occupancy is not a problem since most rooms have been booked by Mahindra for long-staying guests from Ford.

"Our car project, which represents an investment of Rs2.5bn, is set to give a further boost to Nasik's economy and marks another milestone in the city's evolution as an industrial centre," says Mr J.A. Kulkarni, Mahindra's operations manager.

When the Mahindra group established the factory 15 years ago to assemble trucks, they were among the first big companies in Nasik. At the time, Nasik attracted more pilgrims than business visitors. Situated on the western banks of the River Godavari, Nasik is considered a sacred place by

ing real estate prices in Pune, Nasik has emerged as an attractive alternative to the congested industrial climate and peaceful labour history have attracted many large companies whose suppliers gradually moved in as well.

Both cities are almost equidistant from Bombay. But whereas Pune's roads are clogged with traffic and its infrastructure is straining to cope with the influx, Nasik retains the relaxed charm of a small town where people can still bicycle to work. "Business is booming. Nasik is what Pune used to be ten years ago," says Mr J.R. Bhumarkar, a businessman who has lived in both cities.

According to Mr Bhumarkar, who plays an active role in the Nasik Industries and Manufacturers' Association (Nima) of which he was president last year, there are over 6,000 small-scale units,

THE GATEWAY OF INDIA  
MAHARASHTRA

Mumbai, the capital of Maharashtra is the largest state in India which accounts for two thirds of India's exports and seventy percent of its share transactions. The city which has always been recognised as the commercial and industrial capital of India, is buzzing these days with transnationals like Lever, Roche, Sandoz, Bayer, ASEA, Burroughs Wellcome, Colgate, P&G, Suizar, Coca Cola, Du Pont, MICO, Kelloggs and many more making a beeline for it. The city is emerging as a hive of financial activity centre too with the likes of Merrill Lynch, Jardine Fleming, J.P. Morgan & Orix. I am very happy that major multinationals are looking at Maharashtra as partner in growth and it is no wonder that US \$ 35 billion worth of investments are taking shape right now. Add

to this the fact that my government is determined to take Maharashtra faster and further along the road to becoming an industrial superpower. An indication of that resolve is the Government's New Industrial, Trade & Commerce Policy 1995. The Salient Features of the New Industrial, Trade & Commerce Policy : The Mission: ■ Empowerment of the people at all levels. Conscious attempt is sought to realign the Government's role from that of a controller to facilitator in focussing on the common man's development. The Basic Approach: ■ Strong support to liberalisation ■ Thrust on infrastructure in developing regions ■ Private sector participation in development efforts ■ Simplification of procedure and transparency. ■ A recent Business Today-Gallup-MBA Survey

rates Maharashtra as its first or second choice on 18 of the 19 parameters, explaining why 64 per cent of respondents to BT-Gallup-MBA poll are planning to invest in the state. Importantly, the 13 parameters on which the state stands at the top are among the highest on Corporate India's priorities too. Thus, Maharashtra tops, inter alia, on physical infrastructure on the importance scale for ■ business ■ power availability and cost ■ law and order ■ quality of local administration ■ work culture ■ labour availability ■ social infrastructure and ■ quality of power. The combined impact has made Maharashtra the country's best state to invest in, with an index score of 119.94... twice the score of the second - placed state. Source : Business Today July 7-21, 1996.



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## IV MAHARASHTRA



Bombay's road infrastructure is clogged - but the government aims to do something about it. Photograph by Mark Nicholson

Roads by Mark Nicholson

## Industry held back

The state government hopes to attract foreign investment to improve its roads

The two choked hours that it can take to drive from Santa Cruz airport in Bombay to the city's downtown business centre will impress on even passing visitors the need for more, wider, better roads in Maharashtra.

Road infrastructure is clogged in Bombay and, in the hinterland, the poor state of over-stretched and inadequate main routes is among the chief constraints on attempts to push industry further afield, towards the centres of Pune, Nashik, Aurangabad and, more distantly, Nagpur at the state's eastern extreme.

Pune, for instance, is a centre of India's car industry, the home of both Bajaj Autos, India's biggest two- and three-wheeler maker, and Tata, the truck and carmaker. But it is a three- or four-hour drive from Pune to Bombay's ports, 180km away.

The state government does not need reminding of such issues. A proposed eight-lane Pune-Bombay highway has been a "priority" project for the past eight years, but one

derailed by political differences, legal problems in land acquisition and policy pitfalls: no government has so far managed to present a defined and legally clear-cut development proposal for the road to meet contractors' requirements.

Unsurprisingly, Mr Dinosh Afulpurkar, Maharashtra's

chief secretary, puts the Bombay-Pune road, along with three other proposed new highway links to the north, south and north-east, as top of a list of the government's "main thrusts" for attracting private sector financing. "The government has decided in a big way to attract foreign investment to these projects," he says.

Tender documents for the Bombay-Pune road, he says, will be issued later this summer with the aim of work starting by January 1997. Executives at Sicom, the recently-

privatised government industrial agency, estimate the cost will be around Rs16bn. The other routes - Bombay to Goa, Ahmedabad and Nashik - would be tendered from spring 1997. But construction contractors remain sceptical.

Developers cite a range of problems. First is the question of whether the government can successfully, and without delaying legal opposition, acquire the land for the highway. Mr Afulpurkar says this is in train and will be completed in time for the tender, perhaps by August.

There is then the question of what land rights will be offered

to prospective bidders, who argue that revenue from tolls alone along the proposed roads are not likely to suffice to repay investment costs. They have been arguing for rights to develop land alongside the proposed highway as essential to making the project remunerative.

This too, Mr Afulpurkar says, will be addressed. If land cannot be offered alongside the highway, he says the government "is thinking" of offering bidders tracts of land to develop commercially elsewhere in the state. This would be handed over to the developers for the length of the lease for the road proper, which is to be tendered on a Build-Own-Operate-Transfer basis.

But as contractors point out, it is not clear that the government has yet itself acquired such commercial land to put on offer, nor is there any indication where in Maharashtra it lies.

Moreover, the lease on the offered land, according to Mr Afulpurkar, would be for only as long as that for the BOT scheme - a period the government will not set and which will itself form a criterion for the award of the contract: the shorter the offered BOT period, the better, suggests Mr Afulpurkar.

Contractors say they are not holding their breath, until all such matters are clarified, legally backed and in cold print. "Only a beginning has been made, we are still nowhere near knowing whether these projects are financially viable," says the general manager of one Indian construction group.

The Konkan Railway by Shiraz Sidhva

## Engineering marvel nears completion

A project dreamt of over 100 years ago has defeated impossible terrain to become reality

The Konkan Railway, stretching more than 760 kilometres along India's picturesque west coast is one of the most ambitious projects undertaken anywhere in the world. By December this year, this missing link in the world's largest railway system will be completed, connecting the three coastal states of Maharashtra, Goa and Karnataka, and bringing with it industry and development.

For Indian Railways, with a network which currently spans 61,000 kilometres, the Konkan coast is the last frontier, thought unconquerable until a few years ago because of the difficult terrain it covers. Hundreds of rivers flow through mangrove swamps at the foothills of the Western Ghats mountains to meet the Arabian sea, making the land a nightmare for engineers.

A survey exploring the possibility of a railway line along the 1,000-km Konkan coastline was undertaken as far back as 1882, but it was not till 1991 that work began on what has been the largest railway project in the world in the last 50 years and the largest in South Asia this century. The project was essential if the Konkan region was to be industrialised.

The Konkan Railway project was designated a fast-track project, for which funds allo-

undating, was set up in June 1990, under the ministry of railways to undertake the project.

A marvel of civil engineering, it has involved constructing 179 large bridges and tunnelling through 82.6km of hard rock that had to be blasted, or through alluvial soil that was too soft to hold. The terrain was as treacherous to build on as the journey will be breathtaking, with the railway line meandering through foothills and endless tunnels to emerge on bridges spanning deep gorges.

"What we have achieved is nothing short of a miracle," says Mr S. Sreedharan, chairman and managing director of the Konkan Railway Corporation. "I challenge anyone who says it could have been done faster in the circumstances." The rocky, densely forested and inaccessible land of the Konkan is so untouched by development that the local people were forced to migrate to Bombay or Pune to look for jobs.

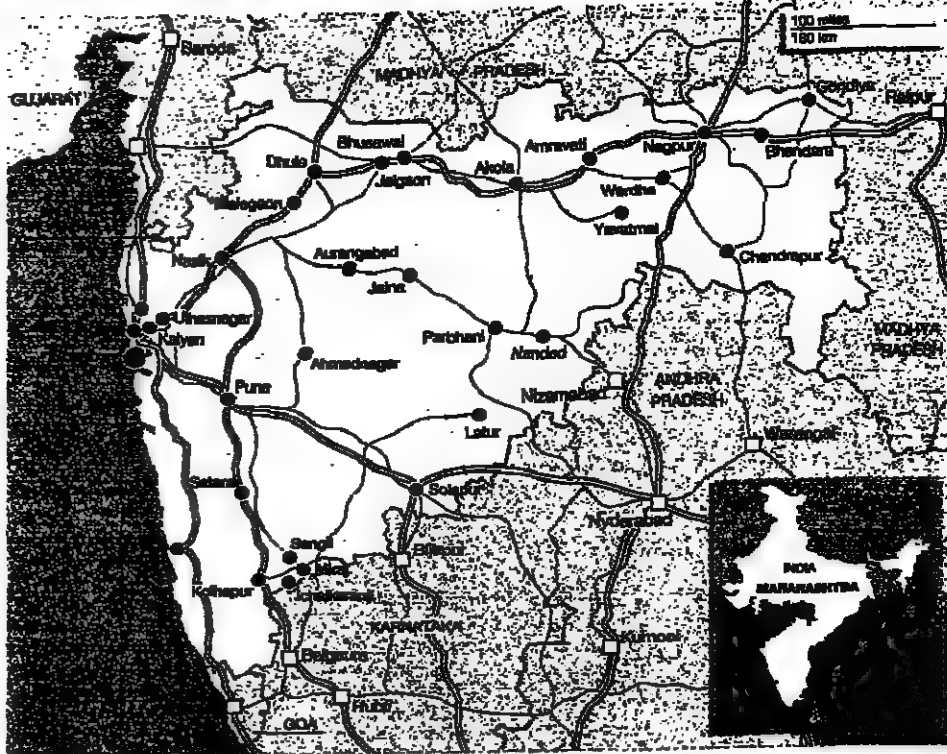
While the project itself has created thousands of jobs in the region, the prospect of a railway line has already attracted about 196 projects to the Konkan, with a total investment of over Rs55bn.

The projects include power plants (Nippon Diesel Ispat, Jindal Iron and Steel, Kalyani Konkan Sponge), petroleum and petrochemical projects (Indian Petrochemicals, Hindustan Petroleum, Hindustan Organics), and textile mills (Orissa Industries, Ratna Silk Mills, Modern group).

The region is rich in mineral resources such as bauxite, iron ore, chromite, manganese ore, and silica, which have been virtually untapped because of inadequate infrastructure. The fertile Konkan soil, the home of the Alphonso mango, is ideal for raising commercial crops such as cashew and areca nut for supporting agro-based industry.

The railway will provide benefits in terms of travelling time, making the region accessible to tourists for the first time. The virgin beaches along the Maharashtra and Mangalore coast offer ideal locations for beach resorts, and the Western Ghats, rich with forests, are ideal for trekking and climbing. A luxury train for tourists is being planned by the Indian Railways, to traverse the route.

The 41-hour train journey from Bombay to Mangalore, traversing a circuitous route of 2,041km will now be cut down to a 914-kilometre jour-



ney which will take only 15 hours. The distance from Bombay to Cochin will take 24 instead of 36 hours, and Bombay to Goa, only ten hours instead of 20. This is assuming that the trains travel at a speed of 100kph, though the lines are being built for a speed potential of 160 kph.

Indian Railways has installed a sophisticated communications network, which computers all operations including train control, scheduling and ticketing for the first time.

"It's the work of a lifetime, compressed into five years," says a senior engineer on the project. "Environmentalists have criticised the project, saying it will cause untold damage to the region. But think of the benefits. The development versus environment debate will continue, but nobody can deny that the Konkan Railway is a technical and engineering feat."

Setting up in Bombay by a special correspondent

## A good office is so hard to find

With prices rising, landlords have a tendency to nibble away at the terms of a deal

Setting up an office in Bombay is not an exercise for the faint-hearted. Except for those with enormous budgets, who are able to pay the highest office rents in the world, finding affordable and "suitable" office space in the island city takes patience, time and then more patience.

A dearth of adequate office space, landlords that range from the intransigent to the merely irrational, and inevitably drawn-out negotiations are just some of the hurdles a prospective tenant has to face.

Professional real estate agents say that, if you are willing to pay premium rents, you can find a suitable office in four to six weeks. This is probably true. However, for those on modest budgets, it can take up to six months to find and fully set up an office. Even then, "suitable" is a relative term in the Bombay property market where office accommodation ranges from the barely adequate to the horrific.

While Bombay's office rents outrank Tokyo and New York,

it has no world class buildings that are available for rent. The poor quality of the city's office space means many tenants used to the City of London or Manhattan.

Many companies simply do not even bother to look for office space, setting up base in the city's luxury hotels. The management consultants McKinsey, for example, have virtually taken over a floor of the five-star Oberoi hotel in the city for the past four years.

However, for most companies this is not an option and the protracted saga of this correspondent's attempts to secure office accommodation is by no means unusual.

An indication of what to expect came with my first office - a desk in an existing space already taken up by a sister company. The building was in the Fort area, once the main business district of the city before it was superseded by Nariman Point in the 1980s.

Like so many fine old buildings in the area, it had been gutted through a break-up into a labyrinth of small tenancies. Without any collective maintenance, the building was subsidising towards inevitable collapse.

To get to the office in the morning meant climbing a dank, dark stairway stained

with betel nut juice. One had to step over families that slept and cooked on the stairs. Inside, the office was tolerable enough, but the state of the communal areas was horrific. There were only two toilets, without running water, for four storeys of office space and innumerable messantries.

To get to the office meant climbing a dank, dark stairway stained with betel nut juice

I soon realised that this office was not a long-term option. However, it was by no means the worst of the alternatives at which I looked. These, of course, were limited by budget and location.

Many companies are moving out of the downtown area in south Bombay to the suburbs where rents are cheaper and larger spaces are available. A suburban location is also more convenient for local staff, saving much commuting time. Continued on facing page

Ports privatisation by Mark Nicholson

## A do-it-yourself solution

Companies can avoid frustrating delays at the big ports by developing their own facilities

Mr Pradeep Kapoor, managing director of Trade and Construction India, gives a simple example to illustrate why he believes the Maharashtra government's new policy of ports privatisation is likely to succeed.

In recent years, he says, the Indian Oil Company (IOC) had found that port congestion at Kandla, a major port in neighbouring Gujarat, was such that the company paid between Rs120m-Rs150m a year in demurrage charges alone.

Under the Gujarat government's policy of ports privatisation, IOC then commissioned Trafalgar House to build a captive jetty near Kandla. "One year's demurrage charges was less than the total cost of that jetty," says Mr Kapoor. He says the IOC case is common. A large Gujarat-based state fertiliser company also based near Kandla, and also paying demurrage charges of up to Rs150m a year, saw the IOC jetty, and immediately commissioned its own.

Tales of delay at the ports are legion across India, where four years of reforms have led to compound growth in trade volumes of 20-30 per cent over the past four years. Virtually all "major" ports are operating - poorly - above capacity.

"There's a tremendous amount of excitement about ports projects," says Mr Kapoor, which he says is premised on exactly this congestion. "Companies are saying, 'For the last 20 years my life

has been so miserable that if someone gives me the opportunity to build my own port, I'll grab it."

Earlier this year the state government offered exactly such an opportunity, following the lead of its northern neighbour and rival state Gujarat, in the expectation of receiving Rs650bn of fresh industrial investment along its coast over the next few years, the state decided to offer seven of its 48 "minor" ports for privatisation. "Minor" ports fall under the state's aegis, unlike "major" ports, such as Kandla, or Maharashtra's two main import-export terminals at Bombay and Jawaharlal Nehru Port Trust, which are central government responsibilities.

The seven ports span the 720km extent of Maharashtra's Arabian Sea coast from Alwar, north of Bombay, and the first to be tendered under the scheme, down as far as Redi, 210km south of the state capital, close to Maharashtra's border with Goa.

The state has already completed, or is completing, technical and feasibility studies for establishing all-weather ports in the seven locations, with drafts of between 6m-12m for vessels up to 30,000 dead weight tonnes.

Bids will be sought in succession for the seven ports, which will be offered for development on a Build-Operate-Own-Transfer basis with a 30-year tenure, extendable for a further maximum of 30 years. Port developers will be required to install both cargo handling and passenger transport facilities, with

the state government committing itself to providing back-up infrastructure of roads, rail, power and other services.

To date, only Ratnagiri port of the seven has any industrial infrastructure - a small clinker jetty.

The rest are essentially fishing harbours, raising some questions as to how welcome such ports and attendant new industry might prove in otherwise rural coastal districts. Yet, although the Dabhol Power project, itself sited on the coast and near one of the seven offered ports, attracted some opposition from locals, state officials believe the developments will be welcomed as job-bringers rather than subjected to protests by locals.

"Our experience is that people in such areas have accommo-

dated industry," says one Sicom executive.

In every case, the aim would be for ports to be developed appropriately to the specific industries either already in place or planned for the area - a factor which contractors believe will also contribute to the success of the projects.

Big industrial groups operating close to any of the privatised ports, they suggest, might feel obliged to mount or join bids to complete the port, to ensure it fits their own requirements. "Industrialists are going to say, there's no way I can afford anyone else to build that port," says Mr Kapoor.

Some developers question whether, in the longer term, running these smaller ports will prove profitable to the groups likely to invest in them. Like the installation of captive power plants, they argue, the developments help to clear an immediate and pressing infrastructural bottleneck, but risk ultimately adding to costs and creating new and uncharted management areas.

For the moment, though, both Indian and foreign groups have already approached Sicom with proposals for the first port on the block at Alwar, a 9m-11m draught port 65km north of Bombay. So far Alwar boasts only a small lighthouse, a couple of storm and warning signals and a customs official.

But even without privatisation, such smaller ports have seen their trade volumes increase markedly. The combined 48 minor ports handled 2.6m tonnes of cargo in 1994-95, up more than threefold on the 720m of a year earlier. Within a decade, the state government suggests optimistically, these little fishing ports will collectively be handling 80m tonnes of freight a year.

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■ Property: by a special correspondent

# A descent of 30% from the peak

Six months ago, office rents were the highest in the world. But demand has fallen sharply

The laws of gravity are finally starting to be felt in Bombay's over-inflated property market. Purchase prices on average have fallen by 30 per cent over the past year although there are signs that the slide in values may now be slowing.

A correction has long been overdue in this deeply distorted market where even shacks in the slums could fetch \$5,000.

While the Indian economy started a process of liberalisation in 1991, the property market has remained subject to an overhang of socialist policies.

**'Bombay office rents had become the most costly in the world'**

which tightened up the supply of land, artificially sending prices soaring.

The extent of the property boom came to world attention with headlines that Bombay office rents had overtaken Hong Kong, Tokyo and London as the most costly in the world. A December 1995 Richard Ellis survey put total occupation costs for office space in Bombay at \$1,799 a sq ft a year compared with \$1,408 for downtown Tokyo and \$1,340 for Hong Kong.

However, the headlines have obscured the downturn in the market over the past 12 months. The liquidity crunch in the Indian economy over the past year has seen investors, corporates and public sector companies either sell off property to raise cash or scale back new purchases.

Political uncertainty surrounding the national elections has also deterred investors and companies, with many waiting to assess the stability and policies of the new United Front government before making fresh commitments. In addition, fluctuations in the rupee exchange rate have seen some overseas Indian investors take a more cautious approach to the market.

Speculative demand for property in Bombay has also fallen dramatically. At its peak, Bombay accounted for about 30 per cent of all demand for property in India.

However, Bombay's unrealistically high prices have seen the "hot money" shift towards other cities in India such as Madras, Pune, Bangalore and Delhi.

There are also signs that multinationals are being deterred by Bombay property prices. Companies such as Coca-Cola, Lehman Brothers and Ford are setting up headquarters in New Delhi, attracted by lower overheads and closer access to the corridors of political power.

"We are worried about the direction of property prices in Bombay over the next 12 months," one leading real estate agent admits.

"People are used to seeing Bombay property prices go in one direction - upwards. They are now learning that prices

can also go down. Demand for property is still strong but prices are so unrealistically high at the moment that nobody can afford them."

Purchase prices in Nariman Point, Bombay's pre-eminent business district, have fallen from an average of Rs30,000 (\$600) a sq ft to around Rs21,000 over the past 12 months. At the market's peak, some office space in Nariman Point was commanding Rs40,000 a sq ft. This compares with average prices of Rs5,500 a sq ft in 1990.

Residential prices also have

A year ago, a four-bedroom, 3,450 sq ft apartment in the building would set you back \$2m to \$4m. Now such apartments are being offered for a mere \$2.5m to \$3m.

Office rents have yet to reflect fully the fall in purchase prices but have softened. Nariman Point office space has fallen from a quoted rent a year ago of Rs200 to Rs250 a sq ft per month to about Rs175 to Rs200 a sq ft.

Rents in other areas have shown similar falls. However, over the next few years Nariman Point rents may fall faster

reason for all the back office operations to be located there given the current high costs," he says.

Mr Vakil says much of the back office operations of the financial sector will move to a new development area on the fringe of central Bombay called the Bandra-Kurla complex.

When fully developed, the complex will be nearly seven times the size of Nariman Point. Bandra-Kurla has the scope to contain about 210 office buildings compared to the 34 at Nariman Point.

For companies, the attractions of Bandra-Kurla are clear, with purchase prices at least 25 per cent less than Nariman Point. The new complex also offers more modern, larger spaces and the commuting time for staff is considerably reduced - no small factor considering Bombay's congested traffic and overloaded public transport.

In addition, there are other factors which are likely to increase the supply of land for development which in turn will put pressure on property values.

Some of the ageing textile mills which take up about a third of downtown Bombay are at last starting to be redeveloped.

Political pressure from unions has long presented a stumbling-block for the redevelopment of the mills which were once the base of Bombay's industrial development. It has been a key factor in the tightening of supply of new land for redevelopment.

Initially, the development on the mills was industrial estates and residential buildings. However, some companies have set up office in the industrial estates.

Mr Nasser Munjee, Housing Development Finance Corporation executive director, cautions that property prices may actually firm in the current year if the economy picks up. He says that, as the supply of land is still so limited, any pick-up in demand is likely to see prices rise again.

There still remains the deadweight of legislative anomalies holding back supply and development of both residential and commercial space.

Bombay must be the only

economic capital in Asia where it is illegal to build even a square inch of new office or commercial space in the majority of its inner-city area.

Under a policy of pursuing the decongestion of the city, state government regulations banned new commercial and office space south of the Mahim Creek, a river that marks the border between south Bombay and the suburbs.

However, Mr Nasser says the regulations have proved counter-productive and it is time to lift them.

There are other regulatory restraints such as zoning regulations prohibiting the building of new residential developments within 500 metres of the coast.

They were initially introduced in the late 1970s to protect the coastline in such

**The restraint is the city's various state rent control acts**

states as Kerala and Goa but have since been applied to metropolitan areas as well.

However, the most notorious and significant restraint on development in the city is Bombay's various state rent control acts.

Introduced in the 1940s, they make it extremely difficult for a landlord to evict a tenant who is determined to stay in his accommodation or even raise rents to reflect inflation or market values.

The result has created some unique anomalies. Some tenants who took up leases in the 1940s to 1960s pay peppercorn sums as low as \$10 a month for homes in the best parts of town while their immediate neighbours pay some of the highest rents in the world.

Landlords with low-rent tenants have virtually no incentive to maintain their property. All around Bombay are buildings crumbling into disrepair and each monsoon season brings a toll of collapsed edifices.

One local real estate agent

says there are thousands of apartments locked up empty around Bombay simply because landlords are afraid they will not be able to reclaim their property from their tenants.

"Even if you have a driver living in your garage for 20 years, it is virtually impossible to evict him from it," he says.

The real estate agent says that even if someone illegally seizes part of a landlord's property, eviction through India's slow-moving court system could still take 10 to 15 years.

The rent acts have survived because of enormous political pressure on the state government to maintain them.

However, Mr Nasser is hopeful that a solution to undoing the rent acts may be found over the next few years. He says they may be lifted on new tenancies in the near to medium future and gradually phased out for existing tenancies after giving first a five-year notice period of the changes.

The local real estate agent is sceptical though, saying there are too many vested interests to see a lifting of the rent act. "Many politicians have made a lot of money out of rising property prices," he says.

However, there are also signs that at least one legislative restraint on development may be eased. The Urban Land Ceiling Act, which limits ownership of sites in all metropolitan areas to a maximum of 500 sq metres, appears set to be overhauled.

The act was brought into effect in 1976 by then prime minister Indira Gandhi with the socialist aims of preventing concentration of urban property in a few hands, deterring property speculation, discouraging the construction of luxury houses and ensuring an equitable distribution of scarce building materials.

The act restricted the capacity of developers to consolidate land blocks although some residential development could proceed if a set portion of it was handed back to the government.

Mr H.D. Deve Gowda, the new Indian prime minister, is said to be a long-time opponent of the act. However, real estate agents caution that the impact of any overhaul may be more psychological given that some development could go ahead already.

There also are other anomalies holding back property development.

lies holding back property development.

By international standards, the maximum allowable floor space that can be constructed compared to plot size - the floor space index (FSI) - is very low, restricting the scope for major projects. Bombay Municipal Corporation has moved to allow developers to increase the FSI on developments by introducing transferable development rights.

If the developer undertakes such projects as slum redevelopment or a school, they gain development rights which can be transferred to increase the size of other developments.

However, the TDRs only apply to residential projects and only in some areas of the suburbs. Perhaps the perplexing anomaly is why more ordinary Bombayites sitting on the vast wealth of their real estate do not simply sell up and enjoy the good life in a less polluted, less frenetic city.

One real estate agent cites the case of a schoolteacher

**Why more property owners do not follow suit remains a mystery**

who was earning a mere \$200 a month and whose family had for the past 50 years owned a two-bedroom flat in Neapean Sea Road, which has become one of the fashionable areas of Bombay.

The schoolteacher sold the flat for \$2m, moved to the greener and more laid-back Pune, in the south of Maharashtra, and bought a substantial bungalow.

He still had enough money to set himself up as principal of a school and thus live in wealth for the rest of his life.

Why more property owners do not follow suit is a mystery. When I first stayed in Bombay, it was with a retired senior police officer who had a three-bedroom flat in the south of city. By western standards, the flat was modest. However, it was conservatively valued at \$1m.

Asked why he did not sell up and enjoy his retirement elsewhere, the officer replied: "You get used to the lifestyle here. It would be hard to live anywhere else."

## A good office is so hard to find

Continued from Page IV

However, the suburbs can be impracticable because of traffic congestion. At peak times, it can take more than an hour to reach Nariman Point even from the nearest suburbs. Initially, Nariman Point was ruled out because of budget reasons. Although its 18-year buildings still fall well short of international standards, for prestige in India there is no location to beat it.

With office space costing at least Rs200 a sq ft, the 500 sq ft office we needed would cost about Rs100,000 a month. In addition, there would be an upfront payment of at least one year's rent, a deposit of equivalent to six months' and two months' rent as commission for the real estate agents.

So the search went on through secondary locations around the city. Over four months, we must have seen 80 offices. Some of them almost defied belief. They included a windowless basement, a 5½-ft high coffin-shaped room, somebody's cluttered front bedroom and one office that was fine except that it reeked of urine from the toilet next door. All these "offices" were priced at between \$1,000 and \$1,200 a month.

Other offices were rejected as too small. Although most offices we looked at were notionally 500 sq ft, in reality they varied remarkably. This is because of a flexible definition of rentable space in Bombay. In most buildings under 15 years, tenants pay for the carpet area - the actual floor

space - plus a percentage of communal areas such as lifts, halls and walkways. This percentage can vary widely. The total "built up" area is usually about 20 per cent more than the carpet area but in new buildings it can be up to 50 per cent more, with landlords taking into account such factors as garden area.

the real occupation cost far beyond the quoted rent. The loss of interest and foreign exchange risk on deposit money alone can make a big difference to occupation costs.

Almost invariably, the negotiations over such factors are protracted. One local real estate agent says landlords have a tendency to nibble

34-hour access, while one insisted on exorbitant rates for providing basic services such as telephone lines. Rental negotiations are not helped either by a wariness of landlords to rent out property.

Even so, many landlords prefer to lock up office space rather than take the risk of renting it out. Often landlords will require detailed financial information about a tenant and/or bank guarantees that they will leave a property at the end of the lease.

Eventually, after scouring secondary locations for four months, we turned back to Nariman Point.

We chose an 500 sq ft office in Nariman Point with a carpet area of about 450 sq ft. The average rent on the two-year lease works out to Rs80,000 (\$1,600) a month. We also paid six months' rent as deposit, 12 months' rent in advance and two months' rent as commission to the real estate agents.

However, even then the saga did not end. During the lengthy refurbishment of the office after the rental agreement had been signed, the landlord partitioned off a huge swathe of the office and claimed it.

Part of this had been agreed, but the landlord went far beyond the original agreement. It took much negotiation to reclaim the space. And even then, the landlord ended up better off.

Nevertheless, I am told we got a reasonable deal on the office. Nothing seems clear-cut in Bombay property deals.

### Office property rental market



This makes it difficult to assess relative value of different offices - a process already complicated by a plethora of variables. These include the amount of deposit and upfront rent, the extent of furnishings, the scope to install technology such as satellites and computers, the length of the lease, the requirement for or not for a bank guarantee for the lease terms and whether the tenant pays such outgoings as electricity and rates.

Even the number of telephone lines can be significant and all these factors can push

away at the terms of the deal - adding such things as rates and electricity to the basic rent. "If they make enough of these nibbles, the whole terms of the deal can be totally changed," he says.

Time and time again, we came close to closing a deal only for it to fall through at the last minute over negotiations on the extras. Many landlords would agree to a deal and then suddenly make an unrealistic demand such as for a deposit equivalent to three years' rent. Other landlords agreed to a deal but refused

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## VI MAHARASHTRA

■ PepsiCo: by Naazneen Karmali

## A refreshing experience

The investment was made after the rules were relaxed in the liberalisation measures of 1991

Foreign companies that are skittish about Maharashtra can take heart from PepsiCo's refreshing experience. Donning a blue-and-white Pepsi cap, Mr Manohar Joshi, the state's chief minister, recently inaugurated the soft drink giant's new canning and bottling lines at Roha, an industrial district located 100 miles from Bombay. Deliberately projecting a new, welcoming image and looking enthused as he took a sip from a chilled can, Mr Joshi promised all help to Pepsi.

Mr Joshi has good reason to be pleased. In the last five years, PepsiCo India Holdings, the Indian subsidiary, has invested Rs20n in two company-owned factories in Maharashtra which provide employment to 4,000 people.

This investment, the largest in any single state by Pepsi, represents one-fifth of the company's total investments of Rs100n in the country. In addition to its own bottling facilities, it also has a franchise arrangement with a small, local bottler, Mr P.M. Sinha, PepsiCo India's chairman says that both the state government and the bureaucracy have been strongly supportive. "This is a

place where you can hire high quality technical people. The work culture here is very good and we have no problems pushing out our delivery trucks at 6am every day," he says.

The new lines at Roha were set up in a record nine months since work began last September. Furthermore, most of the 475 workers employed by Pepsi at Roha have been recruited locally. The company also derives most of its raw materials and packaging worth Rs350m annually from local suppliers in the state.

By the turn of the century, Pepsi wants to invest an additional Rs20n in Maharashtra. About half of this will be spent on setting up more bottling capacity to cater to thirsty markets like Bombay where demand for fizzy drinks is increasing at a pace that Pepsi cannot keep up with. Mr Sinha

says: "Our business has grown faster here than elsewhere and we've had 60 per cent growth year on year. But we continue to chase demand."

Pepsi's second factory is located at Chembur, a north Bombay suburb, which caters to the city market. Cans from the Roha factory are distributed in Bombay and Delhi, whereas bottles go to up country markets in the state. If sent to Bombay, they would attract an entry tax that would eat into margins.

The company wants to build a third bottling unit for which it is negotiating to buy a 15-acre site also in Chembur. This new huge factory, with a proposed capacity of 3,000 bottles per minute, will double Pepsi's total annual capacity of 20m cases in Maharashtra and, more importantly, enable it to meet Bombay's booming demand.



From nowhere to market leader in six years

Photo: Ray Andrew

## Position under challenge

Continued from Page 1

Equally, there has been a general welcome for the government's stated objective of opening up virtually all realms of infrastructure to private and foreign investment. Before the end of this year, the government hopes to have won competitive private tenders to build the long-delayed Bombay-Pune expressway, while also putting up for bid the first of seven smaller ports for private development.

There is also some scepticism that these projects will excite the sort of interest the government desires, notably in the roads sector. Basically,

however, there is a nagging feeling among contractors, bankers and others in business in the state that the government regards private sector investment in infrastructure as something of a panacea.

None disputes that the government has identified the correct priority for developing the state. Officials in the Maharashtra government say they increasingly take the view that better infrastructure is the single biggest inducement for investors, and that the state's emphasis should shift in this direction and away from the use of tax and other financial incentives.

The danger, many believe, is that the government might be sucked into believing that the private sector alone can shoulder the burden of infrastructure development. "I think they are running away from their responsibility," says Mr Pradeep Kapoor, managing director of Trafalgar House Construction India. "In semi-ignorance the government has been thinking that from now onwards the infrastructure can be created by the private sector. In my view, the infrastructure we can provide will be minimal—perhaps 5 or 10 per cent of the total investment needed."

Pepsi has since invested further in upgrading and modernising its bottling acquisitions. This has paid off, claims Mr Sinha, as Pepsi now has a 95 per cent market share in Bombay and overall market leadership in Maharashtra.

Building additional capacity will enable Pepsi to consolidate further its position as well as launch new products. The new factory will include a juice line with a capacity of 300 bottles per minute. Mr Sinha says that, by next summer, Pepsi will be introducing fruit juices such as mango, grape and strawberry for which it has begun to negotiate with local fruit pulp suppliers.

■ Film industry: by Shiraz Sidha in Bombay

## A target for Hollywood

India has the world's keenest moviegoers, so the Americans want more of the action



Headings in Bombay: films of escapism, glamour and oomph for the price of peanuts

Photo: Ray Andrew

Bombay, or Bollywood as it is known, is a regular dream machine, churning out nearly half of the 750 films made in India every year. Films made in Madras and Hyderabad in the southern Indian languages account for a larger segment of the industry, but Bombay produces the movies with the big budgets, the big stars, raking in the big bucks.

Bollywood, which employs over 500,000 people full-time, is the home of the formula film. They are made in Hindi, the national language, and are replete with song and dance routines, fist fights and family histrionics, heroes and heroines, vamps and villains. "People's lives are so bleak in our country, that they need a little dose of escapism, and what better than a Rs20 ticket to Nirvana?" says Mr Daksha Shetty, a Bombay University professor who has studied the Hindi film and its impact on society.

There is no doubt that Hindi films deliver large doses of escapism, glamour and oomph for the price of peanuts. Besides boasting the biggest film industry in the world, India also has the largest movie audiences, with about 50m paying customers a year, nearly four times the number of moviegoers in the US.

After a smart recovery from the relatively tardy onslaught of video and satellite television in the country five years ago, the Indian film industry is facing a fresh assault—from Hollywood.

While Hollywood has a steel-like grip on audiences in Europe, Latin America and even the Far East, where few films are produced, Indians have always watched Indian films. There is a small but dedicated audience for western movies, but the numbers account for nothing compared with the millions that flock to Indian language cinemas each week. The market is defined not by language alone, but by strong cultural affiliations.

The sheer numbers were boosted by a large export mar-

ket that caters to expatriate Indian, Bangladeshi and Pakistani communities (the Hindi cinema transcends political and diplomatic tensions) in the Middle East, Europe, US and the Far East.

In 1994, following the reversal of a 30-year ban on the widespread distribution of foreign films in India, Hollywood hit Hindi-film turf with a dubbed version of *Jurassic Park*. There was no sex, no violence, no action of the kind that distinguishes Hindi cinema (the hero always knocks dead 50 thugs in five minutes to rescue the damsel in distress), and yet, the Spielberg blockbuster was a resounding success.

Last year, muscleman Arnold Schwarzenegger, the gun-toting star of *True Lies* was spouting Hindi like a native, in a desperate attempt to cash in on the world's largest movie market. Hollywood has dubbed films like *Baby's Day Out*, *Schindler's List*, *Speed*, *Aladdin* and *The Mask*, with adequate success to keep the market flooded with dubbed films.

*Jurassic Park* in Hindi ran for 25 weeks and grossed \$8m but Walt Disney's animated yarn *Speed* had to be withdrawn in less than a month. In the big cities, where larger audiences frequent English films, the original versions

may have competed with Hindi ones. Mr Uday Kaushik, north India distributor for Paramount, MGM and Universal Films, says that Hollywood films could carve out 10 per cent of the market in the next five years.

But Mr Kamal Nahta, editor of a Bombay film trade journal disagrees. "We must realise that however good a western film may be, it cannot answer the cultural needs of Indians as easily as our films can. I am convinced that *Jurassic Park* did well only because of its novelty value; because it was the first English film people saw dubbed into Hindi," he says. "I don't see any of these dubbed films grossing the \$100m that *Hum Aapke Hain Kaun* (Who am I to you?), the biggest Hindi blockbuster in 30 years, has so far."

Mr Nahta points out that while films made in Bollywood may make foreign audiences smirk with derision, at home they are grossing more than ever before.

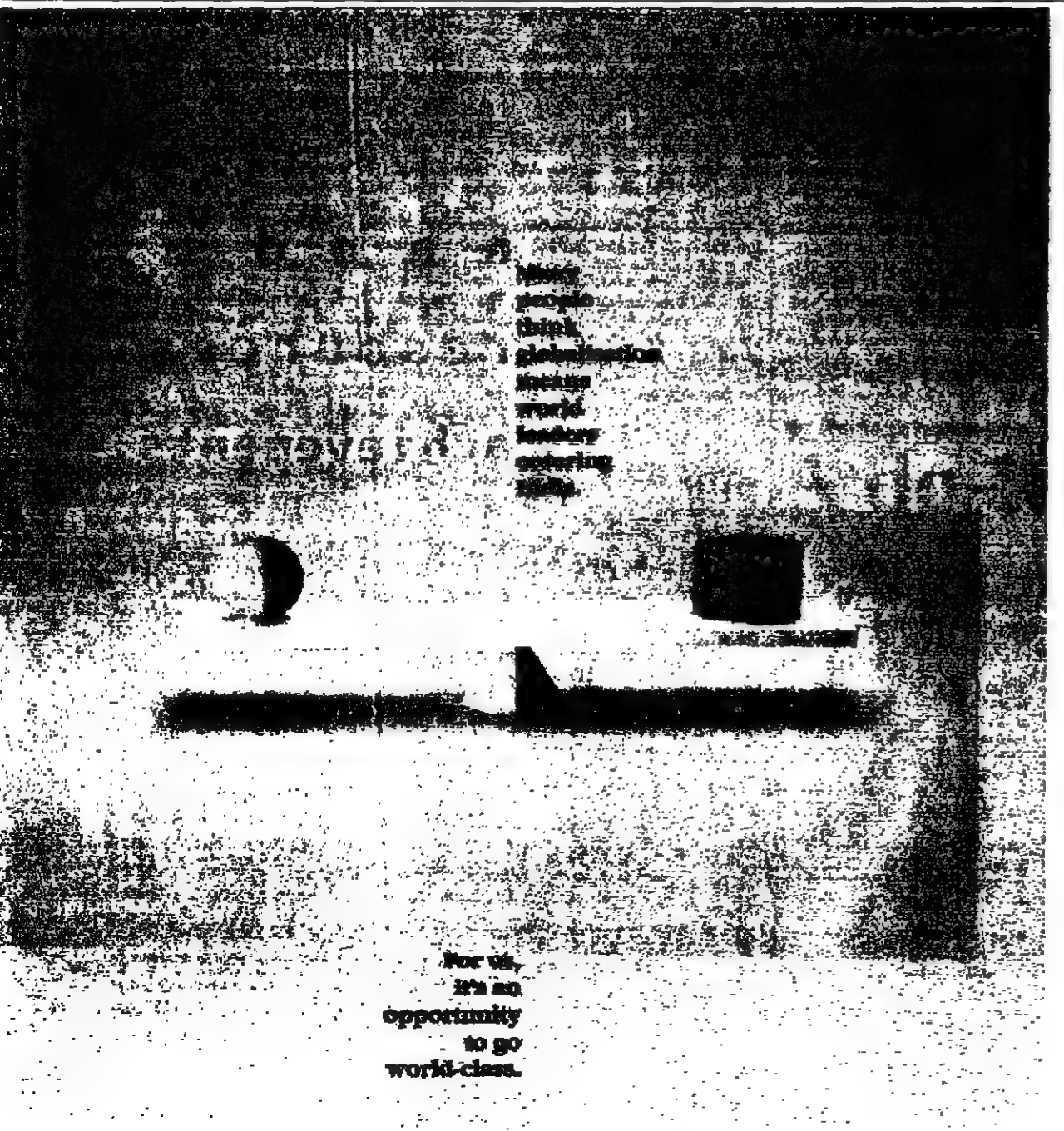
"While the cost of production for even the most technically advanced films rarely crosses Rs50m, box office takings for the best films have exceeded Rs1.5bn within a three-year period," he says. "And a good Hindi film never gets dated. Audiences return to see the same films over and over

again. Add to that the sheer size of the movie-going public and the numbers are staggering."

The success on a Bombay film rests almost completely on the shoulders of the stars that are signed up. Which is why the top names in the business such as Mr Anil Kapoor cannot possibly be matched by Hollywood actors and actresses, however great," claims Mr Nahta. Music is another great draw—song sequences are filmed and released even before the entire film is ready.

Bombay's directors are not afraid of the Hollywood invasion, saying that Indian audiences want Indian cinema. Already, US investors have made overtures in India to fund movie theatres and multiplexes. "Bombay has nearly 700 cinema halls but they are so good without the proper projection, without Dolby systems, and the Americans will have to invest in these areas if they want their films to compete with ours," says Mr Nahta.

"I cannot see Hollywood films achieving a real grip on our market, at least for some time," says Mr Shyam Benegal, one of India's best directors of the new cinema. "Americans know little or nothing about our culture, or what appeals to Indians. We have a lot to learn from them, but they have to learn from us too."



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CONTINUED ON A-12



## KAZAKHSTAN

## Glow of prosperity amid the ashes

After the ravages of Soviet rule, the state now has the hope of stability. Anthony Robinson and Sander Thoenes on its past, present and future

The re-election of Mr Boris Yeltsin as president of Russia last week was greeted by a sigh of relief in Kazakhstan and other former colonies of the Soviet empire. The news was seen as further proof of the vitality of the democratic process in Russia. Above all, it signified that Moscow would not try to re-create the old Moscow-centric Union, as threatened by the communists. Instead, the new government, it is hoped, will press ahead with economic

reforms that have already laid the basis for a new, mutually profitable relationship with Kazakhstan and other former Soviet states.

During 70 years of Soviet rule Moscow treated Kazakhstan in much the same way as 18th century England treated Australia - as a penal colony, dumping ground and quarry. Stalin banished Leon Trotsky to internal exile here in the 1920s. The railways and mines were built mainly by prisoners sent to gulags hastily set up in the treeless steppe and barren deserts of this enormous country half the size of the US.

The pace of industrialisation speeded up when Stalin transferred factories from Nazi-occupied western Russia and Ukraine during the war. At the start of the Cold War he closed off huge areas of eastern Kazakhstan around Semipalatinsk and turned it into a nuclear test centre. It is now a lethal

radioactive desert.

Under Nikita Khrushchev, the Soviet Union built its main space centre, the equivalent of America's Cape Canaveral at Baikonur, near the inland Aral Sea. The latter has been turned into a poisonous cesspool by damming up the rivers that supplied it with fresh water and by pollution from the agrochemicals used in monoculture cotton farming.

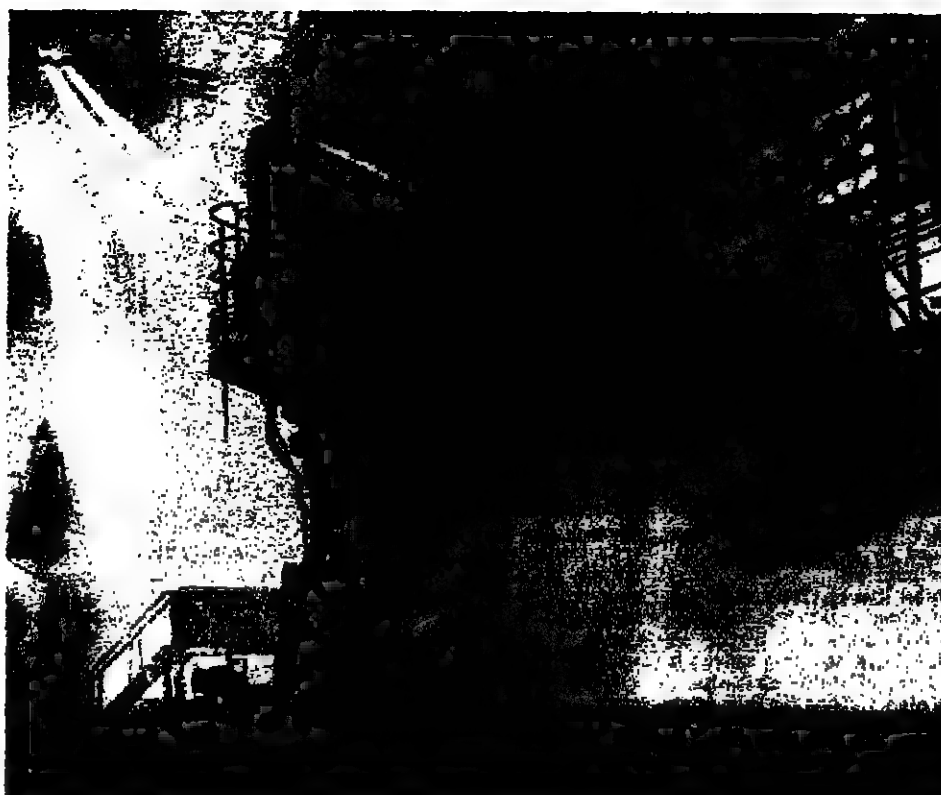
Khrushchev also put the "virgin lands" of northern Kazakhstan under the plough and used the central part of the country for strategic nuclear tests.

After intensive diplomatic negotiations with Washington, Mr Nursultan Nazarbayev, the former communist party first secretary who has transformed himself into Kazakhstan's powerful executive president, agreed to dismantle the bases. He has turned Kazakhstan into a non-nuclear state, thereby pleasing both Washington and Moscow.

After all the activity that was dictated by Moscow and submitted to passively for decades by the formerly nomadic, Turkic speaking Kazakhs, ethnic Russians and a rich mix of other nationalities, Kazakhstan emerged from the wreckage of the Soviet Empire as a poor, economically lop-sided and ecologically ravaged country.

On the plus side, however, the new "independent" Kazakhstan began life with a good basic energy and transport infrastructure, a literate, educated population, and a vast storehouse of as yet unexploited natural resources.

Even so the country emerged blinking into the light of an "independence" that remained heavily conditioned by economic reliance on Russia. At the beginning, Moscow did not even want to include Kazakhstan in the Slav-only version of the Commonwealth of Independent States (CIS) created at Minsk, the capital of Belarus,



An iron and steel works in Karaganda: foreign ownership is turning industries round

In December 1991 it was only admitted after strong protests from the president, terrified at being denied links with the country that took 90 per cent of Kazakhstan's output and supplied most of its oil and other needs. Broadening Kazakhstan's relationships with other countries has been a top priority since that traumatic moment.

Seen against this background, the very survival of this totally land-locked central Asian country, situated at the heart of the great Eurasian landmass, has to be judged something of a miracle.

But survive it has - although the first five years of an initially unsought and unexpected "independence" brought much suffering. Millions of disorientated people lost their jobs, their income and their security. Their entire way of life as "Soviet man" was changed for ever, without anything recognisable to put in its place.

Potentially, one of the richest countries in the world, endowed by nature with world-class deposits of oil, gas, coal, ferrous and non-ferrous metals and thousands of square miles of fertile grain and pasture land emerged from 70 years of Soviet rule to endure five years

of economic meltdown. Its gross domestic product last year had sunk to a mere \$16bn - roughly \$1,000 per capita.

But the worst of the bad times is definitely over. A prosperous, secure future beckons. The turning point, in retrospect, was reached in the second half of 1994 when a new government headed by the prime minister, Mr Akhmetjan Kazhegeldin, started to implement an IMF-monitored stabilisation plan that succeeded in killing hyperinflation.

After a wobble last year, when the government undermined the confidence of foreign investors by interfering with an international tender for the sale of the giant Vastokovskaya gold mine, the government has gone out of its way to attract and reassure foreign investors.

Bureaucracy, especially at the lower levels, remains a problem. But the government, with international help, has laid the foundations for a modern tax code, revised many laws to bring them into line with the needs of a market economy and encouraged bank reform and privatisation (see stories page 4).

An independent central bank is pledged to bring inflation

down to single digits before the end of the decade and to strengthen the national currency, the tenge.

In foreign policy, President Nazarbayev has played an active and canny role. He is very conscious of the geo-strategic constraints under which Kazakhstan is placed by its size and location.

To survive, Kazakhstan needs good relations with its two most powerful neighbours, Russia and China. They are both large and fast-growing markets in their own right. They also control Kazakhstan's main access routes to the wider world.

To the west, a new 306km rail link between Kazakhstan and Iran has opened up a new, Trans-Asian route between the Chinese port of Lianyungang on the Yellow Sea and Istanbul on the Bosphorus.

Most important of all, years of often difficult negotiations with Moscow paid off three months ago with an agreement between Russia, Kazakhstan and Oman. This opened the way for a new 700km-long oil pipeline. By the turn of the century, the new \$1.5bn pipeline to be built by the Caspian Pipeline Consortium (CPC) will transport gas condensate from the Karachaganak gas

field and oil from the Tengiz oil fields through southern Russia to the port of Novorossiysk.

The first stage will have a capacity of 15m tons a year. But if large quantities of oil are proven underneath the Caspian sea, as expected, the region could be producing up to 50m tons of oil a year by the second decade of the 21st century.

This would require both a higher capacity pipeline through Russia and agreement on a second and possibly third new pipeline through the Caucasus and Turkey to the eastern Mediterranean and through Iran to the Gulf.

Significantly, the price of the CPC agreement, which unlocks the door to Kazakhstan's emergence as a leading energy supplier to western markets, was a deal that leaves the Russian government and two Russian oil companies, Lukoil and Rosneft, with a combined 44 per cent share in a pipeline. Construction, however, will be financed mainly by Chevron, Mobil, Agip and British Gas.

Attention is now focused on hopes of a similar breakthrough in the gas sector following Gazprom's decision to pull out of its partnership with British Gas and Agip in the Karachaganak gas project. Its share may be taken by Lukoil.

Up to now, development of the Soviet-discovered gas field in the far north west of the country has been blocked by Gazprom's refusal to let Kazakh gas through to world markets or to pay world prices for gas which it needs to replace the ageing and depleted Orenburg deposits only 150kms further north.

Big, capital intensive energy projects such as these, along with ambitious gold and other foreign-financed mining investments, promise to transform the economy and boost government revenues. But they will only come on stream in the next century.

Hopes for shorter term improvements in the economy hinge on the privatisation of the Soviet-era behemoths, the development of private trade and the emergence of small- and medium-sized private manufacturing and service companies both to provide good quality consumer goods and to create jobs.

Investors from Russia, Israel, India and Korea have stepped in to give this process momen-

## IN THIS SURVEY



Trade shocker: the effects on the people of decades of pollution and nuclear testing

Revelations from an interview with the principal architect of the 'new' Kazakhstan, the president, Mr Nursultan Nazarbayev

Diary of deals: the billion-dollar investments agreed with governments and international companies so far this year

Ore-inspiring: a look at the progress being made in the excavation of the country's huge natural resources

Journey to the centre of the earth: Kazakhstan is at the heart of the east-west rail network. What needs to be done to develop infrastructure further

## KEY FACTS

Area	2,774,127 km <sup>2</sup>
Population	1995: 16.7m; 1996F: 16.5m
Head of state	President Nursultan Nazarbayev
Currency	Tenge
Exchange rate	1995 average: \$1=51; July 2, 1996: \$1=57.28

	1994	1995	1996*	1997*
GDP (Bn)	18.7	18.5	18.5	19.0
Real GDP growth (%)	25.0	-8.9	0.0	1.5
Industrial output (%)	28.0	-7.8	2.6	4.0
CPI (%)	1,880.0	180.0	80.0	35.0
Unemployment (%)	1.8	2.4	3.0	3.0
Ex. rate to US\$ (l.o.p)	30.0	80.0	70.0	80.0
Current account (% GDP)	N/A	-1.5	-2.4	-2.0
Official reserves (US\$bn)	1.0	1.7	2.5	2.7
Fiscal balance (% GDP)	-6.5	-4.0	-4.3	-3.0
Gross external debt (% GDP)	10.5	18.5	18.1	18.5

Main trading partners (% 1995)	Exports	Imports
Russia	42.1	46.2
Netherlands	10.6	6.6
China	6.1	5.0
Germany	3.4	4.4
Uzbekistan	3.2	3.0
Other members of former Soviet Union	8.7	16.4

\* Forecast.  
Source: EU, Reuters, OSU, GNS, ABB-AMRO Hoare Govett estimates.

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- is the largest seller of credits in the interbank market
- is a bank intermediary of the Ministry of Finance of the Republic of Kazakhstan for
  - carrying out pension and benefits payments
  - accumulating compulsory medical insurance fund resources
- is a bank intermediary for Government of Kazakhstan in mass privatization program
  - extends credits to non-ferrous metallurgy, electric power and oil-extracting industry enterprises
  - serves and supports foreign trade activities

During 1995 assets have increased by 4,7 times, and capital by 3 times.



HALYK SAVINGS BANK OF KAZAKHSTAN

## Balance Sheet

December 31

Assets	KZT'000
Cash and balance with National Bank of the Republic of Kazakhstan	1,033,985
Loans and advances to banks less allowance for loan losses	13,616,186
Debt securities	5,354,991
Loans and advances to customers less allowance for loan losses	2,481,653
Investments	39,566
Fixed assets less accumulated depreciation	1,783,050
Other assets	444,439
<b>Total assets</b>	<b>24,753,870</b>

## Liabilities, share capital and reserves

Deposits from banks and credit institutions	41,474
Customer accounts	22,093,484
Other Liabilities	945,555
<b>Share capital and reserves</b>	
Share capital	762,515
Reserves	910,842
<b>Total liabilities, share capital and reserves</b>	<b>24,753,870</b>

Excerpt from the Annual Report for 1995

Republic of Kazakhstan, 480083, Almaty, Masanchy Str., 26  
Tel.: (3272) 509991  
Fax: (3272) 679738  
Telex: 251531

## HALYK SAVINGS BANK OF KAZAKHSTAN:

- plans further expansion of its activities
- plans to establish a subsidiary investment bank
- is involved in project designing and project financing
- varies its international activities: trade and commodity finance, corporate finance, ForEX operations, operations with precious metals
- is expanding its operations in the securities market
- increases financing of import replacing productions in Kazakhstan
- introduces original credit cards in Kazakhstan
- is improving its payment system, expands its use of technology

Deloitte & Touche

The Annual Report for 1995 has been audited by Deloitte & Touche according to International Accounting Standards (IAS).

We at Halyk Bank seek to build long-term relations with our business partners and clients. We strive to develop new forms of cooperation.



## 2 KAZAKHSTAN

Agriculture by Anthony Robinson

## Down, on the farm?

There are hopes that the dismal Kazakh farming record could be being reversed

Opening up the "Virgin Lands" of northern Kazakhstan for grain cultivation in the early 1950s was the Soviet equivalent of ploughing up the North American prairies.

In America, hardy pioneers built private family farms and cattle ranches on the free or cheap land forcibly expropriated from the Indians.

In Kazakhstan the decision to plough up the virgin steppe-lands was taken by the communist party politburo headed by Nikita Khrushchev and those displaced were nomadic Kazakhs who lived in easily transportable "yurts", or circular tents.

The virgin lands programme was aimed at raising the quantity and the security of the Soviet grain harvest and increasing the supply of meat. However, it was poorly planned and executed with total disregard for the welfare of the people involved. Thousands of "volunteers", many of them young students, were sent by the trainload and dropped off at points in the endless steppe-land that was to be the site of vast new collective and state farms.

Frequent droughts, the short, five months maximum, growing season, the unexpectedly rapid decline in natural fertility and the need to apply large quantities of agrochemicals meant that the virgin lands never fulfilled the high expectations of cheap and abundant meat and grain. The Soviet Union was forced to import increasing quantities of grain and meat for hard currency.

But the main difficulty, even when the teething problems were overcome and billions of extra roubles were thrown at the new collective and state farms, was always the huge wastage and poor distribution networks.

Every year, a high proportion of the crop either rotted in the fields, fell off the back of trucks bumping over rutted mud tracks, or was eaten by rats and birds in grain depots

open to the elements.

Officially, things have got worse since the Soviet system collapsed. The collective farms no longer receive seed, fertilisers or combine harvesters from the state; collective farmers, who used to be paid a regular salary like industrial workers, have not been paid for four years; the state no longer carries away the grain and meat. The collective farms are waiting.

Yet, strangely, there has never been more food in the exuberant, well-stocked private markets and privatised shops of Almaty and other towns. Food prices are out of the reach of many pensioners and the new poor who need to get cheap basic food - provided they were prepared to queue for hours. Much of the fruit and other food products comes from neighbouring Uzbekistan, brought by private traders who were forbidden to cross state boundaries under the Soviet regime. But the market system is, often chaotically, taking root.

Last year a severe drought pushed the grain harvest down to around 9m tons. This year, the snow lingered late and much of the grain-growing area, which extends from around 80km north of Karaganda into southern Siberia, had good rainfall. Moisture levels are high and the grass, grazed by big herds of sheep and well-fed looking cattle, is lush as far as the eye can see.

The government is officially forecasting a bumper grain harvest of around 30m tons, but it will not be possible to judge the output accurately until late July. A hot, dry July without rain, or an early wet autumn could still dash hopes. Western grain traders also caution that after five years of little or no pesticide or fertilizer application, the country will be lucky to get 18m tons, even if weather conditions remain favourable.

"At present the agricultural sector produces around \$4bn a

year, around 25 per cent of GDP. With modern methods and better infrastructure, Kazakhstan could easily produce 20m tons of grain a year," says Mr Ben Benich, a US grain trader. "At present, yields are around one ton per hectare, compared with the EU average of 3.5 tons. If Kazakhstan got up to half of EU levels, which is quite possible, it could produce 25m tons of wheat alone," he adds.

Mr Benich runs Cargill-Den, a joint venture between the US-based commodity trader and a local Kazakh company owned by a previous agriculture minister.

John Deere, New Holland and other agricultural equipment makers are trying to break into the market with modern, efficient agricultural machinery. Thus far they have been frustrated by lack of finance and the cash crisis of most collective farms. But last month the government announced that it was buying 1,000 new combine harvesters from Russia in exchange for future grain deliveries.

The new private banks are trying to find ways of increasing the liquidity of the cash-starved farm system, but at present traders such as Cargill are the main catalysts for change in the sector.

"Our business is buying Kazakh wheat and barley from silos here for export. We are also looking at ways of importing vegetable oil and white sugar, which used to come mainly from Ukraine," Mr Benich says.

Earlier this year, Cargill also bought a 60,000 capacity grain silo at Surgut from a privatised collective farm. It is offering to provide diesel fuel and other inputs in return for supplies of grain from local farms at pre-agreed terms. "We're providing a service and introducing the cash economy. But we insist on fulfilment of contract terms. That's a new concept around here," says Mr Benich.

"We've been very impressed by the 'can-do' attitude of the people at the silo. They've had to make do and improvise for decades. We asked them to come up with cheap, effective ideas to improve the silo's operation and they have. They're great," he adds.

The environment by Bayan Orumbayeva and Anthony Robinson

## USSR leaves a toxic legacy

Pollution from nuclear testing and cotton farming has created a huge health problem

Contempt for the health of people and the environment from both its Soviet rulers and the Chinese communist regime has left several large areas of the newly independent Kazakh republic with a terrible ecological legacy.

Thousands of hectares around the former nuclear arms testing ground of Semipalatinsk in north-east Kazakhstan will remain dangerously irradiated for centuries. Fall-out from the Chinese nuclear testing site at Lop Nor only 1,200km from Almaty has often drifted across the Tien Shan mountains and over the Kazakh capital.

The other main ecological disaster is the destruction of the formerly fish-rich Aral Sea, in the centre of this enormous country. The ancient sea has shrunk to half its former size, exposing the thick layers of salt on what used to be part of its bed to erosion and fierce storms.

The root cause is the damming of the Amu Darya and Syr Darya rivers, which once fed the sea with fresh water from the mountains to the south. They were diverted in Soviet times to provide irrigation for monocultural cotton farming, which pollutes the remaining trickle of water with agricultural chemicals.

The heavy use of agrochemicals in Soviet times, now discontinued for lack of funds, has polluted many rural regions. The strong concentration of heavily polluting ferrous and especially non-ferrous mining and smelting in eastern Kazakhstan has also polluted water supplies and the air in the republic's extensive industrial and mining areas.

Recent research by Dr Alma Akkoba of the Geographic Institute of Kazakhstan revealed high concentrations of lead and cadmium in the vital organs of residents of eastern Kazakhstan. Dr Akkoba found that lead levels were between two and 32 times higher than those in a control group in Almaty, while cad-



Road to ruin—cotton pickers en route to work. Agrochemicals used in farming have poisoned water

mium levels were two to six times higher. The highest concentrations were in fast-growing teenagers. Pollution at these levels has led to a steep rise in cancers, still births and deformities.

The plight of people living in the two main ecological disaster areas is desperate.

In the Aral sea region around Aktyubinsk 90 per cent of children suffer from pollution-related illnesses and two-thirds are victims of three or more pathological conditions - principally respiratory, neurological and developmental disorders. Half the children suffer from anaemia while 68 per cent have excessive salt in their bodies from the age of three months. People all around the dried-up areas of the sea also suffer from a high level of allergic reactions.

Infant mortality levels continue to rise, exacerbated not only by ecological conditions but also by lack of medicine

and health care and the collapse of the social organisations that provided cheap milk and other essential foods. The state has been unable to shoulder the cost of services theoretically transferred from institutions of the old Soviet regime. Medicines, formerly supplied free or at nominal cost, are now only available to those able to pay the high prices for smuggled drugs.

But the worst pathologies are to be found in the Semipalatinsk region, where for more than 40 years the Soviet regime carried out atmospheric and underground nuclear tests, deliberately exposing local residents to high levels of nuclear fallout over long periods.

From 1949 to 1953 some 124 atmospheric explosions were carried out at Semipalatinsk, followed by 343 underground explosions until 1959, some of which also resulted in accidental escapes of nuclear fallout into the atmosphere and the

pollution of ground water.

The Soviet president Mr Mikhail Gorbachev stopped all testing in 1989. In the last years of perestroika a widely popular anti-nuclear movement called Nevada-Semipalatinsk emerged. In 1991 the Kazakh president, Mr Nursultan Nazarbayev, who was born in the region, issued a decree closing the testing grounds for ever.

But the legacy for the millions of people living in the test range area, which includes parts of the relatively heavily populated Semipalatinsk, Karaganda and Pavlodar regions, is much worse even than for the survivors of Hiroshima and Nagasaki.

The victims of the atom bomb attacks on the two Japanese cities at the end of the second world war suffered one single dose of gamma radiation. The victims of decades of nuclear testing in Kazakhstan suffered both repeated doses of

gamma radiation and chronic and continuing internal radiation due to the contamination of the food and water they eat and drink and the air they breathe.

In the regions surrounding the test site every third child is born dead or with serious mental and physical defects. More than 80 per cent of children are expected to develop various pathologies during their shortened lives. Between 1980 and 1989 the number of cases of severe anaemia also grew over six-fold. More and more children are suffering from the malignant tumours that are killing a rapidly-growing proportion of adults.

Cancer deaths in Semipalatinsk oblast rose seven-fold between 1975-85, mostly from tumours in the digestive organs, while 50 per cent of the population suffered from damage to their immune systems and 85 per cent from blood abnormalities.

Coping with a health and environmental problem of this scale is way beyond the current resources of a cash-strapped government struggling to maintain macro-economic stability and to attract the foreign investment needed to exploit the country's vast resource base in a profitable and environmentally-sensitive fashion.

But, as the nation's wealth increases, tackling the health and environmental problems of the worst victims of the Soviet years is expected to move smartly up the list of government priorities.

## The return of the natives

The combination of Stalinist repression, famine and forcible transfer of populations has dramatically changed the ethnic mix of Kazakhstan.

According to the Tatarist census of 1989, some 3.4m Kazakhs then made up 63 per cent of the population. In the 1930s around 1.6m to 2.5m Kazakhs died from hunger, purges and exile to Siberia and elsewhere. By 1937, the number of Kazakhs living in their homeland had fallen to 2.1m, or 43 per cent.

Hundreds of thousands more were killed serving in the Red Army during the war, while Tatars, Volga Germans, Chechens, Koreans, Poles and other "suspect" peoples were transferred en masse, under the supervision of the secret police, to internal exile in Kazakhstan. Many were drafted in to

rebuild and staff the hundreds of enterprises that were hastily dismantled and transferred to Kazakhstan and Siberia from the western parts of the Soviet Union to prevent them falling into Nazi hands at the start of the second world war.

In the 1950s millions more Russians and Ukrainians were sent to man the new mines, steel works, refineries and other industrial plants set up after the war and to plough up the fertile but arid virgin lands of northern Kazakhstan.

By 1959 Kazakhs made up only 30 per cent of the population while ethnic Russians constituted 43 per cent, and held most of the key posts in government, administrative and managerial positions. From then on, the balance began to shift back thanks to

the higher natural birth rate of the Kazakhs, and the subsequent emigration of thousands of ethnic Germans. Many Slavs have meanwhile quietly returned to Russia, Ukraine and elsewhere following the disintegration of the Soviet Union.

Today, native Kazakhs account for over 45 per cent of the population and may constitute the majority by the turn of the century.

Normal political control moved back into Kazakhstan in the early 1990s, with the appointment of Dinmukhamed Kunayev as the republic's communist party first secretary by Nikita Khrushchev, Stalin's successor. Most key posts remained in Slav hands, however.

Kunayev became one of the few non-Slav members of the Moscow-based politburo.

When he died in 1986 Mr Mikhail Gorbachev, the new Soviet leader, replaced him with Mr Gennady Kolbin, an ethnic Russian. Within days of the terse announcement of the capital, then called Alma Ata, was convulsed by the first of the ethnic revolts to shake the foundations of the multi-ethnic Soviet state.

"I walked to work over blood-stained snow after three days of violent repression by Russian soldiers who were flown in from Chechnya, as they did not trust the locally-based troops," says a Kazakh eyewitness to the events of December 1988. "Later, everybody who did not turn up for work on those days was questioned by the KGB and Kazakhs were looked on as traitors. In those three days, I discovered the real nature of Soviet power."

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Economy by Anthony Robinson

# At last, the hope of a secure future

Macro-economic stability and new foreign investment could end years of privation

The world is full of potentially rich countries, and that is the category to which Kazakhstan firmly belongs during 70 years of Moscow-centric, Soviet rule. Now, only five traumatic years since the disintegration of the Soviet empire, the Kazakh economy appears to be on the verge of a prosperity unlike anything else it has experienced.

Under Soviet rule, Kazakhstan was transformed from a country of nomadic farmers on the fringes of Czarist Russia into a land of state and collective farms, mines and metallurgical and defence plants knitted together by 14,000km of mainline railways.

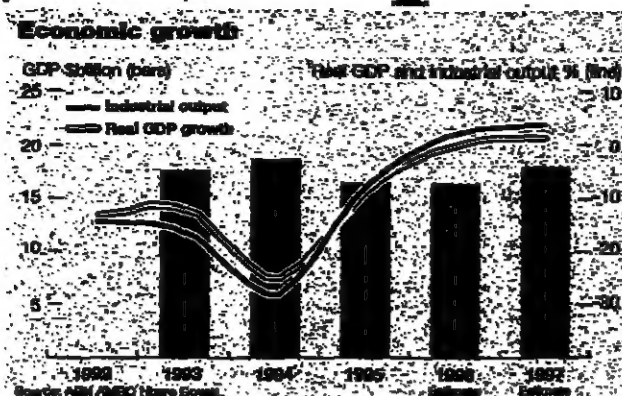
Decades of geological exploration revealed some of the world's richest deposits of oil and gas, coal, and ferrous as well as non-ferrous metals, including some of the richest gold and uranium fields.

But under the wasteful, centralised and increasingly militarised Soviet system, Kazakhstan remained essentially a gigantic farm, quarry and producer of basic iron and steel products. These were transported to Russia and other more industrialised Soviet republics for downstream processing.

Above all, the Soviet Union's perennial shortage of capital and relatively low technological level (apart from in the military sphere) meant that it was never able to build the oil and gas wells and gold mines needed to exploit the region's resource base fully. The central planners did not create a climate for consumer and other light industries, which were woefully under-developed throughout the Soviet empire.

This top-sided economic development meant that Kazakhstan initially suffered cruelly from the disintegration of the Soviet Union and the collapse in inter-republican and Comecon trade that followed the abolition of the transferable rouble and central planning.

Longer term, however, the

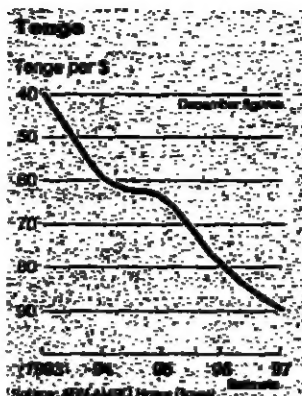


inability of the Soviet system to exploit the resource base fully means that world class gas and oil deposits in the far west of the country around and under the Caspian sea, and the rich gold and other deposits scattered around the country, have attracted the attention of some of the world's biggest multinational energy and mineral companies. These companies are capable of exploiting these resources in efficient, ecologically-sensitive ways that will create a stream of wealth for them - and for the government and people of Kazakhstan.

The details of the biggest resource-based investments are to be found on pages 4 and 5 in

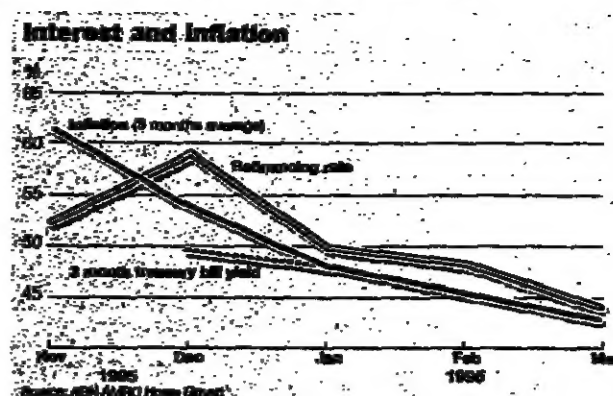
this survey. The concern of the government is that the billions of dollars expected to flow into capital-intensive resource projects in remote areas of the country will create relatively few jobs for Kazakhs and will only start generating wealth by the first decade of the next century.

In the meantime, the priority over the past 18 months has been to put in place the legal and institutional framework for a market economy and create macro-economic stability after two years of hyper-inflation and bumbling by inexperienced economic policy makers that unnerved foreign investors in gold and other resource projects.



Tight, IMF-monitored monetary and fiscal policies were introduced half way through 1994. Inflation fell from 1,880 per cent in 1994 to 180 per cent last year, with the prospect of a further decline to between 30-50 per cent this year. External debt at around \$3bn is low. The plunge in output that followed the loss of Soviet markets in 1991 has come to an end. Industrial production is expected to show an increase of around 2 per cent this year. From now on, the economy should start to show steady growth.

Official optimism may well understate the speed of the recovery, which is underway in significant areas of the econ-



omy. For example, several big Soviet-era metallurgical plants that have recently been sold to private investors have registered spectacular increases in output and exports over the last six months. At the same time, mine output has been boosted and the revenue of the cash-strapped railway system increased.

The Karaganda Metallurgical Combinat (Karmet), the country's only integrated steel plant was only producing 100,000 tons a month at the end of last year, and 90 per cent of its output was sold for barter. This left the plant unable to pay either its workers or its suppliers. But, in November, it was sold to the London-based, Indian-owned Ispat steel group. By May the new owners had boosted output to 250,000 tons a month, all of which was sold for cash, and over 90 per cent worth around \$65m, was exported.

Kick-starting the existing economic structure back into life on a more rational, cash not barter basis, appears to have created the start of a virtuous cycle of growth. It has also established a new basis for a resumption of trade with Russia and the rest of the world.

By trading on a barter basis, Soviet-era companies were able to keep their plants ticking over. But barter starved enterprises of cash and working capital. They were unable to pay suppliers or workers and totally incapable of new investment or anything but the most minimal care and maintenance.

But with new foreign owners such as London-based Ispat, the Russian/Israeli financed

Trans-World and Eurasianbank, and other companies, such as Samsung of Korea, now in charge, the mines and metallurgical plants are paying cash for goods and services and exporting a high proportion of output.

In this way, they are ensuring the rapid development of a "normal" economy with a built-in multiplier effect as workers spend their back-pay and suppliers of goods and services, including the cash-strapped railways, start repaying their debts and making modest investments.

Reducing the estimated \$10bn overhang of inter-enterprise debt is one of the priorities of the central bank. Its other main objective is to ensure that the billions of dollars now starting to flow in for the big new resource development projects do not lead to an inflationary surge in money supply again.

"We are prepared to sterilise excess money if necessary and we are also in favour of keeping a flexible exchange rate regime," says Mr Dzhambayev, president of the National Bank of Kazakhstan. But international bankers still worry that a surge of foreign capital into government coffers could well reduce the pressure to complete the tax and other reforms needed to reverse a decline in state revenues and put state finances on an even keel.

But technical worries like these are a far cry from the dilemmas faced by economic policy makers over the last five years. The economy is on the move. The only real question now is how far and how fast it will go.

INTERVIEW The president

## Trust of people key to reform

It is a few days before his 58th birthday, on July 6, and Mr Nursultan Nazarbayev, Kazakhstan's first president, is looking back on a good year. In the previous three months alone his government has signed nearly a dozen contracts worth between \$800m and \$1.5bn each.

"Why have so many come now and not earlier?" he asks himself, sitting on the tip of a chair in his mahogany office as if in a hurry to go back to work. "Little time has passed since Kazakhstan became an independent state and many foreign companies used to take a wait-and-see attitude, watching how others were doing. The main thing is that big companies came to Kazakhstan and have started to work successfully. That attracts others."

"Last year, we adopted 130 market-oriented laws. Foreign investors especially responded well to the foreign investment law, the law on mineral resources, the law on oil, the law on mortgages, and the tax code that was adopted by Kazakhstan. It has no equal in the CIS and gives clear guarantees to foreign investors on repatriation of the profits," he continues, but then adds quickly: "That's not enough. The Supreme Economic Council of the president works on preparing documents that should improve the tax climate, with tax holidays and exemptions."

Turning to the state of the domestic economy, the president says: "Kazakhstan, like other post-Soviet states, has only just reached macro-economic stabilisation. In 1994 we had 1260 per cent inflation, last year it was 80 per cent, this year we plan for 30 per cent. Next year, we hope for 9 to 12 per cent, and in 1998 we need have 2 or 3 per cent inflation to function like any normal capitalist state."

"These are hard targets to reach. In such conditions, the government carries a heavy burden. Last year I approved

a three-year mid-term economic programme. It calls for raising people's average income by two and a half times, higher pensions, a 2 or 3 per cent rise in annual output starting 1997, a stable national currency, an increase in the gold reserves, a rise in Gross National Product each year. We have to give the cabinet the chance



Nazarbayev has a target of 2 or 3 per cent inflation by 1998

to fulfil that programme." Asked what worries him before he goes to bed at night, Mr Nazarbayev pauses for only a second. "We need to improve the lives of the people of Kazakhstan faster. If we don't do that quickly the population may get fed up. Those investments that came to Kazakhstan - \$2.5bn in the past five years - they went to capital-intensive projects which will only bear fruit in three to four years. The Caspian Pipeline Consortium contract greatly enhances the potential of Kazakhstan. Last year for the first time, exports exceeded imports. All that enables me to make an optimistic prediction that we are close to really improving the lives of my people. The faster we improve the lives of the people, the more they trust in our reforms. And that will provide strength to our state."

Sander Thoenes

Politics and foreign policy by Sander Thoenes

## Tough at home, tactful away

The president has strengthened his own role without alienating his neighbours

In June, the Kazakh parliament tried to wield the only power it had left - the power to vote down laws. The Mazhila, the lower house of a parliament that was elected last year, rejected a draft law that would have raised the retirement age by three years. But the government of the prime minister, Mr Akhmet Zhaptayev, submitted the bill and put it to a vote of confidence. A rejection would have forced the president, Mr Nursultan Nazarbayev, to dismiss the cabinet or dissolve parliament.

Mr Nazarbayev has twice faced an unfriendly parliament, and has twice managed to get it replaced, each time with fewer powers and a greater number of presidential loyalists. This time, he backed his prime minister. Parliament voted 76 to 39 to approve the bill. "They didn't vote for Kazakhstan. They voted to keep their job," one Western diplomat says. "It was a game. The parliamentarians just wanted to show they existed."

The vote illustrates the formidable power Mr Nazarbayev has amassed in recent years, mainly at parliament's expense. Even the Communist Party, Kazakhstan's largest movement, with a claimed membership of 45,000, poses little of a threat to his rule. When the government objected to the party's statutes, which still called for a dictatorship of the proletariat, the Communists quietly obliged by deleting the controversial phrases.

His tough stance has brought Mr Nazarbayev criticism from Western politicians but praise from Western business executives in Almaty. Investors point to the political stability in Kazakhstan, and at the more than 100 laws, many designed to attract foreign investment, that Mr Nazarbayev pushed through while there was no parliament last year. (The previous parliament, by contrast, adopted only seven laws in one year.)

Mr Nazarbayev says his people simply lack the tradition of organised opposition that, in neighbouring Russia, gave rise to a powerful Communist

Party. "Freedom of speech is fully provided in Kazakhstan. There are over 40 parties and movements here," he says. "But Russia is Europe and we are the East. Our people see what problems there are in the countries surrounding us. We have convinced people that for economic reforms to succeed, so that people will live better, we need peace and quiet, political stability and inter-ethnic accord. In the beginning, I had to create all the parties by myself. I set up the Socialist Party, I set up the People's Congress. I created the Union of National Unity," he says, allowing himself to chuckle like a schoolboy who has managed to get away with cribbing. "There was no practice, no tradition. For hundreds of years we lived in totalitarian conditions, and in three, four, five years to become the same as everywhere else is impossible."

In preventing unrest among

'For hundreds of years, we lived under totalitarianism, to change in five is hard'

the Russian minority who dominate the provinces bordering Russia, Mr Nazarbayev has been amenable to compromise. Kazakhstan's Russian community is large, estimated at 34 per cent of the population, and many people work in the outdated factories that are among the hardest hit by reforms.

Power has shifted into ethnic Kazakh hands since the dissolution of the Soviet Union. But Kazakhstan has been careful to avoid overt discrimination against the Russian minority. Russian and German schools are officially encouraged to stay open, though they now have to teach Kazakh as a second language. Mr Nazarbayev tends to address his people more often in Russian than in Kazakh.

According to official statistics, only 35,000 people emigrated from Kazakhstan in the first quarter of this year, compared with half a million in 1994. "The problem was serious two years ago, but it's not so tense now," one diplomat says. "Maybe the Russians realised the situation was not much better in Russia and that in the

future it will be possible to make good money in Kazakhstan."

A similar willingness to compromise has enabled Mr Nazarbayev to avoid a conflict with the two superpowers that surround him, Russia and China. Russia still controls access to export routes for oil and gas; it is the leading trade partner and the dominant military force in the region. Unlike the Baltics or neighbouring Uzbekistan, Kazakhstan has no choice but to live with Russia.

Last year, Kazakhstan joined a customs union with Russia that now includes Belarus and Kyrgyzstan. Critics say the union benefits Russia and was designed to boost the ratings of Yeltsin's president, Mr Boris Yeltsin, in presidential elections last week.

Mr Nazarbayev demurs. "The bottom line is whatever is advantageous to Kazakhstan," he says. "We initiated the customs union with Russia. I don't see any politics here. I see pure economics."

Citing a sharp rise in trade with Russia in the past half year, he adds: "Why should we let the Russian market pass us by? It's profitable for us to send our goods there."

"When we signed the quadrilateral agreement," he adds, "we made sure that this agreement would not clip our wings and that it would leave no room for imperial ambitions."

In return for his support, as well as a large Russian stake, Mr Yeltsin in April signed an agreement with Mr Nazarbayev on the construction of a vital pipeline that will enable Kazakhstan to export its oil. Russia has also muted its objections to Kazakh exploration of its part of the Caspian Sea Shelf, though its diplomats still insist the Caspian's resources should be jointly owned and exploited.

Similarly, Mr Nazarbayev has kept quiet about Chinese nuclear tests, just across the border, and has cracked down on the Uighur minority that supports an Uighur independence movement in northern China. "They want no problems in the east and they are willing to make any concession,"

one diplomat says. Diplomats and Kazakh observers say that Mr Nazarbayev boosted his powers not just by turning the economy around but also by making the president's allies out of the cabinet and building a power base among the country's emerging business elite.

They had expected the president to sack Mr Nazarbayev early this spring, but at the last minute Mr Nazarbayev kept Mr Zhaptayev in place. Mr Vitaly Metze, a deputy prime minister and ally of the president, was sacked instead. The president has in recent months focused on foreign relations and domestic politics, leaving the economy largely to his prime minister. Mr Nazarbayev admits he has backed out of the daily economic decision making but denies there has been any conflicts with his prime minister. "The relations between the president and Mr Zhaptayev have changed since February," the diplomat says. "They made a deal. Nazarbayev was becoming too powerful, but maybe there was no alternative."

## THE EXPORT-IMPORT BANK OF THE REPUBLIC OF KAZAKHSTAN

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- portfolio investments
- financial consultancy

#### Consolidated balance of Eximbank

Kazakhstan as of January 1, 1996  
KZT Thousands

Exchange rate: USD 1 = 63.9 KZT

Assets	
Cash	409
Claims on National Bank	45525
Claims on other Banks	1947679
Claims on Clients	2801903
Securities for Resale	69083
Reserve	-1180
Fixed and Tangible Assets	1121151
Intangible Assets	570
Interest Earned	11878
Other Assets	25935
<b>Total Assets</b>	<b>6023053</b>

Liabilities	
Liabilities to other Banks	100000
Liabilities to Clients	2040438
Other Liabilities	157305
Charter Capital	3208055
Bank funds	519255
<b>Total liabilities and Capital</b>	<b>6023053</b>

#### Annual profit-and-loss account

KZT thousands

Net interest income	126 211
Net non interest income	7818
<b>Profit Before Taxation</b>	<b>133 829</b>

#### THE EXPORT-IMPORT BANK OF THE REPUBLIC OF KAZAKHSTAN

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## 4 KAZAKHSTAN

Banking: by Anthony Robinson

## Two tiers take shape

Assistance from the World Bank and the EBRD has helped quicken the pace of reform

The spade work to build a solid basis for the Kazakh banking system took place in the second half of 1994 when the government and central bank put in place an IMF-supervised stabilisation programme. This sought to repair the damage created by a bungled bail-out of loss-making enterprises that caused a hyper-inflationary surge in money supply over the first half of that year.

The re-establishment of macro-economic stability since 1995 has underpinned the tinge, the national currency introduced in December 1993, and permitted the core group of young central bank managers, led by Mr Urz Dzhandayev, the president of the National Bank of Kazakhstan (NBK) and Mr Grigory Marchenko, the head of banking supervision, to move forward with policies designed to consolidate the banking system and toughen supervision.

Banking sector reforms are being helped by the World Bank, the European Bank for Reconstruction and Development and others. The EBRD is taking equity stakes in some of the fledgling private banks and provides medium-term finance for on-lending to small- and medium-sized enterprises. Last

month, the World Bank approved a \$180m, two-year financial sector adjustment loan to help improve the banking environment and tackle the extensive inter-enterprise debt and bad loan problem.

Mr Dzhandayev, president of the NBK, estimates that the volume of inter-enterprise debt is around 700bn tenge, just under \$10bn. This is equivalent to around 70 per cent of an estimated gross domestic product of between \$16bn-18bn. "The problem is bad, and the volume of inter-enterprise debt is still growing," he adds.

The World Bank loan will help finance the transfer of non-performing loans, taken on by the state-owned banks at the government's request in the early transition years, to special state work-out entities, such as the Rehabilitation Bank, the Agricultural Support Fund and the Ministry of Finance. In many cases, transfer to these bodies will be the ante-chamber to bankruptcy for the debtor.

Mr Dzhandayev says that unrealistic state budgeting is one of the main reasons for the continuing rise in inter-enterprise debt. "Tax inflows are insufficient and the government essentially takes goods and services without paying for them. The main areas of non-payment are the agricultural sector and transport and utilities such as heating and electricity," he adds.

Another root cause of the inter-enterprise debt problem

is the culture of non-payment. This is inherited from the Soviet regime when inputs and distribution were all in the hands of central planners and the exchange of goods was largely cashless.

Under these conditions, the development of a modern, two-tier banking system is a prerequisite for the transition to a monetised, market economy. Substantial progress has been made towards this goal over the past 18 months and even bigger changes are expected over the next two years.

The independent central bank is at the heart of a banking reform that has already cut down the number of private banks from more than 200 to just over 100 and seeks to re-vitalise the four big state-owned former specialised banks that form the core of the system.

In some ways, the most important of the four state-owned banks is the Narodni bank, the ubiquitous state savings bank. Also known by its Kazakh name of Halyk Bank, it boasts more than 10m savings accounts and an unrivalled branch network through which it collects the bulk of Kazakh savings. Access to the nation's savings means that Narodni/Halyk bank dominates the interbank money market. It is both the main credit wholesaler and the effective lender of last resort to the Kazakh banking system.

"The savings bank has kept the system together as the central bank has withdrawn from

active participation in the money market. But it is now moving away from its original specialised role. It is spreading its wings by moving into trade finance and other banking operations," notes Mr Paul Maxwell, managing director of ABN Amro in Almaty.

Alam bank, the former foreign trade bank, got its fingers badly burned last year when a series of Turkish Ex-Im bank-backed deals went wrong, leaving the capital dotted with unfinished Turkish-built hotels and office blocks. Two Turkish banks, Ziraat bank and Emlek bank, have joint ventures with Kazakh banks. Financing packages to complete the 80 per cent finished Ankara Hotel and Alam banking centre should be finalised shortly.

In the meantime, Alam bank, which is also saddled with bad debts, faces an uncertain future and is presently under special supervision.

"The problem with the state-owned banks is that they are all saddled with big bad-loan portfolios and staffed mainly with people used to operating under the old regime where concepts like risk assessment, credit-worthiness and rate of return were unknown. They face growing competition from some of the more aggressive non-private banks such as Kazkomersbank (KEB) which have young, fast-learning staff attuned to modern banking practice and unburdened by inherited bad debt," Mr Maxwell of ABN says.

## Foreign banks force change

Giving overseas rivals access to the market is seen as critical to banking modernisation

"One of the main aims of our banking policy is to encourage the emergence of a small core of Kazakh banks, capitalised to the standards set by the Bank for International Settlements and able to compete with foreign banks," says Mr Urz Dzhandayev, the president of the National Bank of Kazakhstan (NBK).

The decision to pursue a liberal policy towards the entry of foreign banks is seen as crucial to the move to a competitive banking system.

"Legally, we still have a ceiling that restricts foreign banks to under 25 per cent of the overall capital of the banking system. But since January we have had the authority to go above that on a case-by-case basis. We want to end all restrictions on the entry of foreign banks by the end of 1998. By then we hope to have a relatively small core of five or six Kazakh banks - maybe even fewer - which are able to compete with foreign banks," the NBK president adds.

The rise of the foreign banks should run in parallel with the growth of foreign investment. The flow of billions of dollars from multinational oil, gas and mineral

companies into the country should encourage other overseas investors in the next few years and create more banking opportunities. The NBK believes that the foreign banks will, initially, at least, concentrate on servicing foreign companies and on foreign exchange and investment banking operations.

This will still leave space for local banks to cultivate

banking arm, Hoare Govett, it recently won the 17-bank international tender competition to prepare Kazakhstan's first eurobond issue.

"Initially, we are advising the NBK on a credit rating, which we expect to achieve by September. We then hope to launch what is expected to be an initial \$100m Eurobond issue by the end of November," says Mr Paul Maxwell.



Mashevich: his bank, Eurasia, is giving reorganisation added momentum

their own links with foreign companies and build up their business with the fast-growing local private companies. At present ABN-AMRO, the Netherlands-based international bank, is the only foreign bank with a full banking licence operating in the country. Apart from handling the usual commercial banking business, ABN is also a primary dealer in government securities. Together with its London based investment

who manages ABN's operation in Almaty, Kazkomersbank, one of the most aggressive and innovative of the new private Kazakh banks has a 29 per cent stake in ABN's Kazakh operation and receives technical and other assistance from its Dutch partner.

Almaty is also the headquarters of Eurasiabank, a very different kind of foreign bank. Mr Alexander Mashevich, a former psychology pro-

fessor from Bishkek, the capital of neighbouring Kyrgyzstan, sits in a large room that has a white carpet and elegant walnut furniture. He is guarded by armed young men with pistols in shoulder holsters who prowl the ante-chamber to his office.

Financial backing for the bank, which has the London-based Trans-World Group as a leading shareholder, comes from Russia and Israel. Mr Mashevich describes Eurasiabank as an investment bank. Over the last two years it has become the owner of a string of large aluminium, ferrous alloy and steel plants together with iron ore mines and power stations in both Kazakhstan and Russia.

Eurasiabank is one of the main forces for the re-organisation and modernisation of the former Soviet-style economy. Mr Mashevich says the bank creates wealth by providing working capital and inputs to re-start moribund, capital-starved Soviet-era plants and by cutting costs and selling the finished product for cash.

Meanwhile, a raft of other foreign banks, including Citibank, Deutsche Bank, Dresner Bank, Commerzbank, Union Bank of Switzerland and Société Générale of France, have offices in the Kazakh capital and several are expected to set up full banking operations shortly.

Anthony Robinson

New legislation: by Sander Thoenes

## Certain taxes, fewer duties

The president's investment laws need refining but lay the basis for a modern tax system

When the president, Mr Nursultan Nazarbayev, dissolved parliament in early 1995, it had taken more than a year to adopt seven laws. By the time Mr Nazarbayev allowed new elections in December he had passed more than 100 decrees and produced a constitution that was approved by a referendum.

This barrage of legislation, including a new tax code, puts Kazakhstan far ahead of its neighbours in creating a legal basis for investors. "The foundation has clearly been laid," says Mr Fred Treca, consultant to the government for Price Waterhouse. "But there is still much work to be done in implementing and refining these laws."

In the rush to legislate, some laws were not properly considered and others have been badly publicised. If local officials are not aware of their existence, they can hardly be

expected to implement them. "We have the right words on paper," says Mr Daniel Witt, president of the International Tax and Investment Centre, "but it's a whole different world out there in the oblasts [regional authorities]."

The tax code cuts the number of taxes from 45 to 11, putting an end to many overlapping duties. "It's the best tax code in the former Soviet Union," says Mr Witt, who helped to write it. "It's broad-based, low rate."

Mr Mike Whitaker, a tax consultant to the government, is more cautious. "It's a pretty good, modern tax code, but it's also rather vague," he says. "The Kazakhs have been rather strict in their interpretation."

According to Mr Whitaker, the code has none of the turnover taxes that put off investors in other former Soviet republics, but it leaves little room for deductibles, pushing up operating expenses.

One simple move that pleased many investors was the abolition on July 1 of all export tariffs, introduced a few years ago to halt a rapid outflow of subsidised Soviet com-

modities. Export tariffs never did much to stem that flow, however, and now that prices have risen close to world levels, they have turned into unnecessary barriers to trade. Mr Treca Begalmetov, deputy economic minister, says that his government is still considering alternative ways to prevent the dumping of Kazakh natural resources on the world market. Licences are one option but western economists caution that they would do more harm than good.

Oil, gas and gold producers are less worried about a draft law on taxation of natural resources, which would introduce royalties, excess profit taxes and three bonuses. The government has hurried along with this draft and may submit it to parliament this summer.

"On the face of it, the tax terms are not very attractive," Mr Whitaker says. "It looks as though it's going to be pretty tough."

The draft tax law would be slightly tougher on investors than its Australian counterpart, Mr Whitaker says, but adds: "Companies investing in Kazakhstan would look for a higher rate of return because of the political risk."

According to Mr Russell Lambert, tax consultant for

Price Waterhouse, "Kazakhstan is trying to entice investment, and its main resources are oil and gas. It's hard to entice investment if you have a hard-structured tax code that you're not able to negotiate on. Most oil companies already have their major deals done or in progress, so they feel pretty comfortable that this tax code won't apply to them. But all your existing deals that aren't done yet will have to

come under this code and that's where you'll have major problems."

Most tax experts agree, however, that even bad tax laws are better than the chaos that preceded them. "I think everyone would rather pay a little higher rate with certainty than a low rate with uncertainty," says Mr Charles McClure, economic adviser at the Hoover Institute in California. "The certainty is a lot greater now."

## The 1996 diary of deals

The lobby of the Marco Polo Rakhatai Palace, Almaty's most luxurious hotel, has been bustling with Western executives, top officials, lawyers and consultants in the past three months. The result has been a wave of investment that promises to make last year's \$1bn inflow look like a trickle. Below is a snapshot of this year's deals:

● April 27 Russian president, Mr Boris Yeltsin and Mr Nursultan Nazarbayev, his Kazakh counterpart, sign an agreement on the Caspian Pipeline Consortium, which should unlock the wealth of Tengiz and other oil fields in western Kazakhstan by linking them to Novorossiysk, the Russian oil export harbour on the Black Sea. Chevron, Mobil, British Gas, Agip, Oryx and later Shell, together with the Russian oil companies Lukoil and Rosneft, agree to finance construction of the pipeline in exchange for guaranteed access. A contract should be finalised later this year. Value: \$1.5bn; unlocks \$300m in investments.

● May 3 Mobil Oil agrees to buy a 25 per cent stake in Tengizchevroil, Chevron's production venture at the Tengiz field. Chevron keeps 50 per cent, as before; the government of Kazakhstan sells half of its stake to Mobil for \$1.1bn.

● May 25 Deutsche Telekom agrees in principle to upgrade Kazakhstan's country's telephone network, and pay off the monopoly's debts, including those to its workers.

In return, the company will obtain 49 per cent of voting shares, plus management control for up to 15 years. Value: \$536m in investments and debt payments.

● May 30 Vitrol, the Dutch oil trader, wins a privatisation tender for 90 per cent of the Chinkent Refinery, Kazakhstan's largest. Value: \$230m in cash and investment pledges.

● June 1 Samson, the US oil producer, wins exclusive rights to negotiate for 90 per cent of the Yuzhnyy oil production association, which has proven hydrocarbon reserves of 80m tons. The bid is not disclosed, and the parties are still in negotiations in July, but when a contract is signed the investment pledge should exceed \$500m.

● June 5 Trans-World Group, the London-based metal trader and producer, announces plans to build a new aluminium plant and boost production at an existing alumina plant in Pavlodar, in northern Kazakhstan. Value: \$1.2bn to \$1.5bn. The group says it hopes to create 5,000-10,000 jobs in the next three to five years.

● June 17 Samsung Deutschland, the Korean subsidiary group, purchases a 40 per cent stake in the Zhezkazbaktantmet copper plant in central Kazakhstan. Officials call the purchase price "a commercial secret". Samsung pledges to invest just over \$1bn in the next 15 years and says it has already invested \$200m.

● June 18 Ispat-Karmet, subsidiary of the British-based steel producer Ispat, announces the acquisition of 15 coal mines in northern Kazakhstan for \$182m, including payments of old debts. The company has owned a nearby coal-fired power plant - bought for \$2.4m - since April. Both companies are suppliers to Ispat's largest investment, the Karmet steel plant. Total investments this year: well over \$200m.

● June 18 Asea Brown Boveri Holland, part of the Swiss-Swedish industry group, pledges to build, finance and operate a 320 megawatt power plant in Kazakhstan. The power plant should come on-line around the turn of the century. The final agreement may yet hit disagreements over electricity fees. Investments: \$350m.

● July 3 A consortium of three Western gold companies, Teck, First Dynasty and Bakyrchik Gold, signs a contract for an 80 per cent stake in the Vastokvostok gold ore deposit, which has proven extractable reserves of 6.5m troy ounces. The group began negotiations in June with the offer of \$360m and a bonus of \$85m.

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Metals by Sander Thoenes

## 'Monsters' roar again

Foreign investment means metallurgy plants can once more be pillars of the economy

The conventional wisdom among foreign investors in the former Soviet Union is that the giant metallurgy plants that dot the 15 republics are a write-off - too inefficient, too old, too deeply in debt, and simply too big to become profitable.

In Kazakhstan that conven-

tional wisdom has been proven wrong. Two years ago, most of the mines and smelters were on the verge of closure, some had debts of up to \$500m, unpaid employees and production lines that were at a standstill. The break-up of the Soviet Union had deprived them of traditional customers in Russia, while the Kazakh government had run out of funds to subsidise them.

In addition, many Soviet-era factory directors had plundered assets, selling off metal cheaply and signing unprofitable supply contracts for kick-

backs. Samsung, the Korean conglomerate that signed a management contract for a copper smelter, was one company that discovered such abuse. It found that \$190m was missing at the Zhezkazbaysvetmet copper smelter it took over in central Kazakhstan. "We were very surprised about the way the previous management went about its business," Mr Jong-Wan Lim, commercial director, says. "A lot of contracts were fictitious, and the money had disappeared."

Samsung subsequently bought 40 per cent of the Zhe-

kazbaysvetmet plant and hopes to obtain a majority share later this year. It has invested \$300m, has already doubled production to 18,000 tons of copper a month, and plans to invest another \$100m over the next 15 years.

Mr Alexander Mashkevich, vice president of Eurasianbank, an Almaty-based investment bank that specialises in metals, remembers how another such plant almost went bankrupt. "The Yermakov Ferroalloy Plant was a monster, the largest in the world - one million tons a year," he says, sitting in

Output of metals (thousand tonnes)			
	1993	1994	1995
Iron	5,705.0	4,822.5	7,211.5
Rolling steel	3,436.0	2,356.9	2,140.9
Chrome	2,820.0	2,102.6	2,416.8
Ferroalloys	776.5	635.3	782.3
Refined copper	317.5	278.4	255.6
Zinc	238.5	172.5	169.1
Gold	13.7	14.1	14.8

Source: Ministry of Finance/AMPO House Council

his elegant office besides a giant Kazakh flag. "But nobody cared where the metal went, and it almost died. Nobody thought about money or had any idea what a market was. They didn't even know what assets or liabilities were."

Eurasianbank now owns the Yermakov factory, along with a nearby chrome mine and a

second smelter. It also owns the Pavlodar aluminium plant and the Sokolovsko-Sarbaishkoye iron ore mine and has revived production at four of these five enterprises.

In the past year, most of Kazakhstan's large metal mines and smelters have been sold off to private investors, mostly foreign. As well as Samsung,

they include Gerald Metals, Glencore, and Kazkommertsbank, a leading Kazakh private bank that has gained control over three large lead and zinc plants near Ust-Kamenogorsk, and World Wide Minerals. The last is a Toronto-based mining company that won a tender for the exclusive right to negotiate a management contract for a substantial mining and processing complex for uranium, gold, industrial diamonds and phosphates in Stepanogorsk.

Of the metallurgy plants, only the Balkhashmed copper smelter is still up for grabs. But investors have been circling around that plant as well.

Since new investors have moved in, most have boosted production and their success has encouraged others. Getting

the metals out of the country has been a challenge (see Infrastructure story, page 6) and metal prices have been weak, but margins and cash flow have been sufficient to allow for self-financed expansion of output. "The enterprises have started to breathe again," Mr Mashkevich says.

This is of vital importance for the Kazakh economy. Metal exports accounted for 45 per cent of export revenues in 1995, compared with only 33.5 per cent for oil and gas, the country's more famous commodities. A boom in metal exports could bring the cash-starved Kazakh budget quick and sizeable revenues. By contrast, it will take several years for the oil and gas fields to yield such income.

Kazmet steel plant by Anthony Robinson

## New jobs, new markets

How the giant mill is at last adjusting to the modern economy

When the Karaganda Metal Complex (Kazmet), emerged in the early 1960s from the featureless steppe near the village of Timirtau, 20kms north of Karaganda in central Kazakhstan, it was hailed as a triumph of Soviet labour.

Today, building an integrated steel mill with the capacity of Kazmet - 6m tons a year - would cost an estimated \$8-10bn.

But times and technology have moved on. Steel companies now opt for cheaper, less polluting and more productive mini-mills. The days of giant plants are over.

Kazmet, and plants like it all over the former Soviet Union, have had difficulty in adjusting to the nascent market economy.

But what has happened here over the past eight months indicates that there could still be a prosperous future for plants that until recently were dismissed as dinosaurs.

Kazmet, formerly the second largest steel plant in the entire Soviet Union, used to account for around 12 per cent of Kazakhstan's total gross domestic product. All the steel it could produce was absorbed by insoluble, Moscow central planners.

But it became one of the main victims of the new era of uncertainty. Its Soviet-era managers floundered and then plundered the plant. Attempts to replace them with western "contract managers" failed miserably. Vost Alpin of Austria and then US steel, together with Eisenberg, an Israeli steel group, tried briefly but unsuccessfully to pull the plant back from the brink of extinction last year.

With an air of increasing desperation, the Kazakh president, Mr Nursultan Nazarbayev, who began his career as a steelworker at Kazmet and ended up as the plant's communist party secretary, searched for a solution.

For a while, it looked as though Mr Alexander Mashkevich, the managing director of Eurasianbank, might be the answer. An Almaty-based investment bank with close Russian and Israeli connections, Eurasianbank controls the Sokolovsko-Sarbaishkoye iron ore mine 50kms west of Karaganda that supplies the steel complex.

It looked at Kazmet but preferred to invest in a new aluminium refinery at Pavlodar in north-eastern Kazakhstan instead. But last November the fate of the run-down plant, deprived of all but the most essential repair and maintenance work for five years, took a new turn. Ispat, a London-based private steel company founded and owned by an Indian businessman, Mr Lakshmi Mittal, and his wife, won a competitive tender that made Ispat 100 per cent owner of a new company, Ispat-Kazmet.

A ramp company, Kazmet Combinat, was left with responsibility for most past debts, many of which reflected fraudulent trading by previous management.

Ispat was originally offered a management contract, but it made clear that it would not assume responsibility for the plant if it were allowed to buy it outright.

Investments should total \$500m over the next five years

and on a virtually debt-free basis. "Ispat refused to assume responsibility for around \$300m in unpaid electricity and other bills. But it did pay us for unpaid iron ore deliveries and some other essential supplies," says Mr Mashkevich.

"Ispat was lucky, it came when the government was desperate to find a solution for Kazmet, but when it was clear that it was possible for foreigners to invest and do business here," he adds.

Ispat agreed to pay around \$450m for Kazmet's assets and a few selected debts. The net purchase price was under \$270m. But it also undertook to invest another \$500m over the next five years to reduce pollution and raise efficiency.

Psychologically, Ispat's most important move was to agree to pay around \$9m in back pay to the 30,000 workers when the cash-starved former management had left without wages for up to six months.

Since buying Kazmet, Ispat has also bought the 436mw coal-fired power plant that supplies heat and power to the steel complex and to all the homes and offices

in Timirtau. It is now renovating the power plant before closing down the smaller, but inefficient and highly polluting, 150mw plant inside Kazmet itself.

To secure cheap coal supplies to both the power plant and the steel complex, Ispat also paid \$183m for 15 coal mines in the nearby Karaganda coal field, whose existence originally attracted Ispat to Kazakhstan. This deal ensures access to both steam coal and, above all, to more than 1bn tons of high quality coking coal (see story, right).

With domestic demand virtually non-existent, at present production for export is the key to raising output to full 6m-ton capacity within the next three years. Priority investments are a new \$43m pickling plant ordered from Mannesmann of Germany and the replacement of coking ovens with more efficient and less polluting equipment.

Looking further ahead, Ispat sees the greatest profit potential in producing for a local market that presently does not exist.

Under the Soviet system, Kazakhstan produced steel and other basic industrial products and delivered them to manufacturing plants in Russia and other more industrialised republics. "But," says Mr Malay Mukherjee, Ispat-Kazmet's general manager, "this plant produces tin plate as well as hot and cold rolled steel products, making it ideal for local consumer goods industries such as food processing."

Although these industries are few and far between in the area at present, Mr Mukherjee believes it is only a question of time before they develop. "The fertile black earth zone begins 50kms north of here. There is great potential for meat, fruit and vegetable processing," he says.

"The Asian Development Bank is interested in financing such projects. We will also offer incentives for foreign and local investors to set up plants that can be built from our construction steel and fed with rolled products for cans and packaging."

By eliminating the heavy costs of transporting steel thousands of miles to export markets, Ispat-Kazmet hopes to make the profits needed to re-generate Kazmet and to become a catalyst for wider industrial restructuring - creating new jobs, new consumer products and a big new captive market for Kazmet.

Coal by Anthony Robinson

## Security for 100 years

By buying 15 mines, Ispat-Kazmet is providing for its long-term future

It was not the prospect of owning Kazmet, one of the world's largest steel mills, that first attracted the London-based private company, Ispat, to Kazakhstan, but the existence of one of the world's largest deposits of good quality coking coal.

"Iron ore deposits are being discovered around the world every day. The world is awash in iron. But coking coal is hard to find and becoming increasingly expensive. It was the search for coal which brought us to Karaganda," Mr Malay Mukherjee says.

Mr Mukherjee, a Bengali from Calcutta who was the former manager of Ispat's Mexican steel mill, is now in overall charge of Ispat-Kazmet, the coal mines that supply it and the heat and power station that feeds both the steel plant and the town of Timirtau.

It was while checking out the 21 coal mines of the Karaganda Coal Combine last autumn that Mr Johannes Stittard, who scouts the world for Ispat checking out potential acquisitions, was asked by the Kazakh government to cast his eye over the troubled Kazmet steel combine 18kms away. Acquiring the steel combine then made it doubly important for Ispat to buy the coal mines that were the original target.

"Acquiring the coal mines makes a big difference to the overall economics of the steel plant. We will now invest what is needed to raise mining productivity and reduce costs," Mr Mukherjee says.

Proximity to the Karaganda coal mines was the main reason why Kazmet was built in the first place. When working at full capacity the blast furnaces and power plants consume 11m tons of coking coal and 2.5m tons of steam coal a year.

Over the first six months of this year, the Karaganda Coal combine produced various grades of coal at an annual rate of around 18m tons, and employed 40,000 miners and support workers. It is one of the richest coal fields in Kazakhstan. At Ekibastuz, 400kms to the north east, lies another shallow deposit whose vast open-cast mines feed local power stations and

supply steam coal to factories in north-eastern Kazakhstan and southern Siberia. Most of Karaganda's coal output is consumed by Kazmet and a few other large cement, engineering and military factories in the area. The rest is taken by the energy and heating plants that provide power and central heating to the 400,000 inhabitants of the city of Karaganda and the 100,000 residents of Timirtau.

Ispat's takeover of Kazmet broke the circle of non-payment that threatened the imminent collapse of the entire local economy. It first agreed to pay the wages backlog of the Kazmet workers and then extended a lifeline to the mines - by paying cash for coal - and to the equally cash-starved railway system.

Ispat's track record at Kazmet helped consummate the acquisition of its original target, the Karaganda coal mines. The

unions know workers have an assured market for coal

company only really wanted seven mines. But in the end it agreed to take on 15 of the 21 mines whose output was directly relevant to Ispat-Kazmet's needs. Several of the other, mainly open-cast mines, will probably be closed.

Ispat made an initial investment of \$193m in order to acquire its 15 mines, which currently employ 29,000 people. More importantly, it has also acquired access to a deposit of high quality coking coal that is bigger than 1bn tons - "enough to last well over a century," as Mr Mukherjee puts it.

A technical survey undertaken by a UK-based coal consulting firm that did a lot of work on the privatisation of British Coal, found that the mines had been well designed. But they had been starved of maintenance and needed new coal-cutting equipment and other machinery.

"We did not take any of the open cast mines, which remain in state hands. But the underground mines are relatively shallow - between 100 and 500 metres deep - and with thick seams of between 3

to 15 metres. They are ideal for modern long-wall mining methods," Mr Mukherjee says.

The scope for higher productivity and lower costs is substantial and will lead to job losses, both in the mines and the steel complex. But Ispat's willingness to give backpay to the 75 per cent of mine workers who had gone without wages for up to six months under the previous state owners, has given them credibility with the unions and the workers.

"The mining union knows that with Ispat as owners, the workers have an assured market for their coal. The union's top priority is to secure as many jobs as possible. It also wants wage indexation to protect itself against the inflation that ravaged incomes even when they were paid," Mr Mukherjee says.

Until now Ispat has relied on natural wastage and incentives for early retirement to reduce payrolls and has not resorted to compulsory redundancies. But with plans to invest more than \$200m in the coal mines over the next few years many jobs will inevitably go.

"We will not be able to continue to employ so many people directly. But by investing in new coke ovens at Kazmet, for example, we will produce coal-based chemical by-products worth around \$25m a year. We could just ship the chemicals out and sell on world markets. What we would rather do is provide incentives for other investors to come here and set up consumer-oriented plastic and other plants around the Ispat-Kazmet complex," Mr Mukherjee explains.

In this way redundant miners, steelworkers and their wives will be able to get new jobs in new industries. Meanwhile, wage and salary levels will rise for the fewer but more productive steelworkers and miners in the renaissance mines and steelworks of the future.

Before now, the people of Timirtau have had only one employment option in the Soviet-style company town. If Kazmet's broader plan to attract other investors goes well it could underpin the development of a more democratic society where people have greater choice and where workers and their families are no longer dependent on a single employer - the state.

Gold by Sander Thoenes

## Perils of the yellow prize

Why, for western ventures, the rewards of gold exploration may be a long time coming

To take a look at the map on the right is to take a look at the hard-rock mineral wealth of Kazakhstan.

"This is one of the best endowed regions in the world," says Mr Kenneth Arne, general manager of the gold mining company, Kazakhstan Minerals Corp.

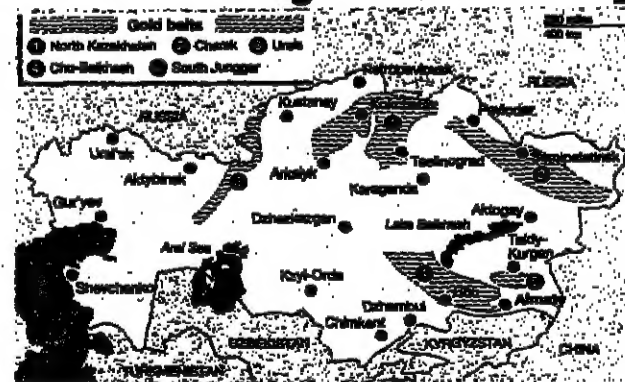
The country's president, Mr Nursultan Nazarbayev, says foreign investments could help Kazakhstan boost annual gold production from 14 tons in 1994 to at least 62 tons before the end of the century. Mr Serikbek Daukeyev, the geology minister, recently said the country's gold reserves were worth \$25.3bn.

Since the total size of deposits is kept secret, Mr Daukeyev's claim is hard to verify but it forms part of the simple logic that has drawn dozens of gold producers to Kazakhstan. "Big is big," says Mr Robert Friedland, whose group of investors has pledged more than \$500m to the country's two largest gold mines, Bakyrchik and Vastilovskoye. "We'll all be dead before we run out of gold here."

Mr Friedland leads a consortium of three Western gold companies, Teek, First Dynasty and Bakyrchik Gold, which last week signed a contract for an 80 per cent stake in the Vastilovskoye gold ore deposit. The mine, in northern Kazakhstan, has proven extractable reserves of 6.5m troy ounces, making it the fourth largest undeveloped site in the world.

The group pledged to invest \$500m and offered an \$85m bonus and undisclosed royalties, in return for its stake.

Many leading gold companies have been sceptical about the bidding since last year when the Kazakh government snatched away the licence from one venture, cancelled the tender and then handed it



directly to Placer Dome of Canada. Placer Dome backed out after it had paid \$35m up front, forcing the government to start from scratch.

The tender was a showcase, designed to repair Kazakhstan's image among Western banks and goldminers after the Placer Dome fiasco. "We are learning from our mistakes," says Mr Marat Bitimbayev, deputy minister for geology.

Companies may find other problems once bids succeed. Of the state's gold ventures only Bakyrchik is currently producing gold, and even that exploration is making a loss.

Since taking over Bakyrchik, Mr Friedland has dropped the venture's innovative but inefficient leaching technology in favour of more traditional roasting equipment from Lurgi, a division of Metallgesellschaft in Germany.

Production reached its initial goal of 29,000oz recently, Mr Friedland says, adding that the target for late 1998 is 260,000oz.

"There hasn't really been a success story here yet and there's a couple of people who have shot themselves squarely in the foot. You have to be a whole lot more patient here," says Mr Arne of Kazakhstan Minerals Corp.

"The difficult thing is the remoteness of the location. It's hard to attract Western staff. And it still takes a long time to negotiate. This country does not have the regulations we're used to in the West. The thinking here is still very much command and control." The president has decreed

that gold can be freely exported, but with only one producing mine to set a precedent, many ventures are still unsure how this edict will work in practice. "The law is deliberately vague," says Mr Alexander Lesser, a lawyer for Squire, Sanders & Dempsey in Almaty.

Legislation allows for exports of refined gold, but the only operating refinery charges several times the Western rate because it has been unable to cut costs by hedging the gold it

processes. Unrefined gold can be exported but, after refining, is subject to sale at primary auctions within Kazakhstan.

The National Bank and the Finance Ministry have first right of refusal. It is here where most of the confusion arises: "The law does not say the gold has to be re-imported," notes Mr Lesser.

Another concern is a draft law on taxation of mineral resources, which establishes royalties, bonuses and excess profit taxation. Some gold producers feel such a law would render their projects unprofitable because it treats gold and oil ventures equally, without accounting for the additional expenses incurred by gold exploration and extraction. The draft is still being debated in the government, however, and some lobbyists are confident it will be rewritten.

"This is not a tax haven," says Mr Arne. "It's a trade-off. You've got good geology. But you can't come here and expect to get away without paying taxes. It's pretty comparable to what we'd expect in the West."

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## 6 KAZAKHSTAN

## A COUNTRY AT THE HEART OF EAST-WEST RAIL LINES



■ Infrastructure by Anthony Robinson

## On the right tracks

Connections are good, but funding could be better

Seen from Europe, indeed seen from most places, Kazakhstan is a very long way away. It is also very, very big. But its location at the very heart of the Eurasian landmass makes this independent former Soviet republic a convenient place from which to supply basic industrial, food and other products to the fast-growing markets of northern China to the east as well as to the middle east and Turkey - which seen from Kazakhstan lie to the west through Iran.

Kazakhstan is also a supplier to Russia, and to the industrial cities of southern Siberia just across its northern border.

Half the size of the US and bigger than the whole of western Europe, Kazakhstan has been endowed with fertile rolling prairies and world-class deposits of oil, gas, coal, and ferrous and non-ferrous metals. Totally landlocked, it is dependent on the goodwill of its neighbours for access to the wider world.

For such a country, railways are crucial. In Soviet times Kazakhstan was fully integrated into the Soviet rail network. All the main Eurasian

and Trans-Asian, east-west lines run across its territory. Of the 14,000kms of main line some 3,800kms are electrified and mostly double track.

The most heavily used line is that running from Almaty across the endless steppes, through the coalfields and metal plants of Karaganda and on to Petropavlovsk in industrialised southern Siberia. Here it interconnects with the Trans-Siberian railway.

Last year, the railways carried just under 18m tons of freight, less than half the Soviet-era load when traffic was more than a million tons a day. Since the collapse of the Soviet Union, Russia has either not paid the Kazakh railways for transit or only paid through barter. This has left many wagons and locomotive idles and meant no money for new rolling stock or maintenance.

This year, however, has seen a recovery as several big metallurgical plants and coal mines have been privatised and re-invigorated. Not only are volumes up but the railways actually get paid cash, sometimes even in advance, by the new capitalist owners.

With a bumper harvest in prospect and international cereal traders active, the railways are also hauling more fertiliser this year and are preparing

to export up to 3.5m tons of grain.

In addition, significant sectors of the economy are now under private ownership and as massive foreign investment starts to flow into world-scale oil, gas, gold and other projects, the need for an efficient road, rail, air and pipeline infrastructure is of growing importance.

Compared with many other countries, Kazakhstan is not badly off. "We were pleasantly surprised. The infrastructure here is a lot better than the Attopiano of Peru or the Australian outback where we have equivalent operations," says Mr Kenneth Arne of Kasmirco, which has ambitious gold mining projects just starting up in the state.

But off the few main roads that have all-weather tarmac surfaces, most of the country is linked by rudimentary mud-tracks; state-owned Kazakhstan Airlines, with its ancient gas-guzzling Soviet planes is virtually bankrupt and every part of the infrastructure needs heavy investment in maintenance and modernisation after years of enforced neglect.

The necessary capital may only be raised with the urgency required if "strategic" transport industries are opened up to privatisation.

■ Oil by Sander Thoenes

## Exploiting the fields of dreams

The construction of a new pipeline should help companies tap the country's vast reserves

When a well at the Tengiz oil field in western Kazakhstan caught fire in 1985, the flames raged for 444 days and consumed more than 1m tons of oil before workers managed to close the well. Throughout the blaze, pressure meters at the other wells of the field barely blinked.

"The field is so big it was almost like taking a drop out of a swimming pool," says Mr Nick Zana, director general of Tengizchevroil, the Chevron and Mobil venture that has been producing oil at the field since 1993.

Tengiz, located onshore in the north-east Caspian sea area is estimated to have extractable reserves of at least 800m tons of oil, making it one of the world's largest deposits. "This is a once-in-a-lifetime opportunity," says Mr Zana. "How often can an oil man say 'I run a super giant oil field'?"

It is stories like these that have drawn most of the world's other leading oil companies to Kazakhstan, despite the risks of operating in this barren and economically depressed country.

For the first few years of Kazakhstan's independence, many of the larger oil companies kept a low profile, mainly because there was no reliable export route. The only existing pipelines to Western markets run through Russia, which has been unable, and many say

unwilling, to grant Kazakhstan significant access.

In April this year, however, Russia, Kazakhstan and Oman ended years of haggling by signing an accord on the construction of the Caspian Pipeline, from western Kazakhstan to the Russian port of Novorossiysk.

The three countries agreed to invite private investors to take a 50 per cent stake. Chevron, Mobil, the Russian oil companies Lukoil and Rosneft, British Gas, Agip of Italy, Oryx of the US and the Kazakh state company, Munaygas, all pledged to invest and hope to sign a contract later this year. The pipeline, to be completed in the first decade of the next century, should be able to pump 60m tons a year, three times the country's current annual production.

A flurry of deals followed the agreement. Within a week after the Caspian Pipeline Consortium deal was signed, Mobil announced it would purchase half of the government stake in Tengizchevroil for \$1.1bn. Royal Dutch Shell joined in a few weeks later by pledging to finance Rosneft's share. Vital, the Dutch oil trader, in June bought a 90 per cent stake in the country's largest oil refinery at Chimbkent, in the far south. Further north, Samson, a US oil company, is negotiating the purchase of a majority stake in the Yuzhnoyegorsk oil production association, the refinery's main supplier.

On August 1, Exxon and Texaco are expected to bid for the large Aktyubinsk production association, which has rights to the Zhanaozen oil field that is

estimated to hold 200m tons of oil. Amoco hopes to finalise negotiations later this year on a sizeable exploration project just south of Tengiz. These oil contracts alone could triple foreign investment in Kazakhstan, estimated at roughly \$1bn in 1995.

"You go where the oil is," says Mr Carl Burnett, president of Mobil Oil Kazakhstan. "Tengiz will be very expensive to develop - deep, high pressure, sour. But there's a lot of oil."

Later this summer, the KCS consortium of seven Western oil companies and one Kazakh concern will finish collection of seismic data on the 100,000 square kilometres of the Kazakh shelf, the largest exploration in the world. Some Kazakh officials have predicted that the hydrocarbon reserves could be four times as large as Tengiz.

The KCS consortium members, Agip, British Gas, Mobil, Total, Shell and an alliance of British Petroleum and Statoil, have been promised 12 blocks on the field. But negotiations on a production sharing agreement have been well behind schedule. The members want minimal exposure in the first few years and early returns on their exploration costs, but the government is intent on drawing in as much Western investment as early as possible.

The Caspian Pipeline will not be ready for at least another three years, however, and until then oil production and revenues, vital to economic recovery, are unlikely to rise sharply. The lack of an export route and a drop in domestic consumption in recent years has actually forced Kazakhstan to lower

production from 28m tons in 1992 to just over 20m tons last year.

Tengizchevroil hopes to double production by the end of this year and reach a capacity of 8.5m tons by the end of 1998, but Mr Zana says his venture intends to limit additional investments to whatever revenues can finance. This means he has had to cut costs, consider a hiring freeze and develop alternative marketing strategies. He now sends oil by train to Finland, markets it inside the former Soviet Union and ships it up the Volga river, down the Don and into the Black Sea to the West.

The Kazakh government has been looking for alternative routes as well. The president, Mr Nursultan Nazarbayev, in May agreed with his Iranian counterpart to ship 2m tons a year, and later 6m tons, to northern Iran. In return, Iran will hand over oil of equivalent value to customers of Kazakhstan at a port on the Persian Gulf. When the governments agree on the details and the ports have been upgraded to handle the loads, a mix of Tengiz and other crude oil will be shipped to Iran from the port of Aktau, officials say.

The US government enforces a tough boycott against Iran but has not objected to the arrangement, provided US companies are not involved.

Mr Zana says the Kazakh government has the right to purchase its share of oil production from Tengiz for shipments to Iran but insists Tengizchevroil has no role in the deal. No matter which routes are chosen, he is confident: "The oil will flow out of Kazakhstan and wealth will come to Kazakhstan."

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